United Nations E/2009/15

Economic and Social Council

Distr.: General
26 May 2009

Original: English

Substantive session of 2009
Geneva, 6-31 July 2009
Item 10 of the provisional agenda*
Regional cooperation

Regional cooperation in the economic, social and related fields

Report of the Secretary-General

Summary

The world is experiencing the unfolding of the worst economic and financial crisis since the Great Depression, whose effects are exacerbating those of the recent spikes in food and fuel prices with severe consequences for the poorest and most vulnerable populations in terms of unemployment, decreased sources of income, access to nutritious food and to basic health services. The crisis, which became full-blown in September 2008, is rapidly spreading to developing countries and emerging market economies which are affected by lower export revenues because of lower volumes and prices, less tourism, increased unemployment, decreased capital flows, foreign direct investment and remittances, along with fiscal budgetary constraints.

Although unprecedented measures have been taken to avert the worsening of the crisis, the global recovery will be protracted and further policy action will be required to help restore confidence and to relieve the financial markets of the uncertainties that are affecting the prospects for economic recovery.

While the prices of food and fuel have decreased since the peak that they reached in July 2008, the commodities markets remain highly volatile and uncertain. According to World Bank figures, higher food prices are estimated to have increased global poverty by some 130 million to 135 million people.

Fuel prices experienced sharp swings in 2008, with oil prices peaking in July and declining by 70 per cent at the end of the year. According to the International Energy Agency, current global trends in energy supply and consumption are patently unsustainable — environmentally, economically and socially.

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There is consensus about the need for enhanced cooperation, coordination and coherence in the response measures at the regional and international levels. While policies must be centred at the national level, greater international cooperation is needed to avoid exacerbating cross-border strains.

Each region in the world is being affected differently by the multiple crises and each one is responding according to its particular conditions and circumstances. However, many of the lessons learned by some regions from previous crises have increased their resilience to the current one, and experiences could be shared in this regard. Regional responses have proven to be a valuable means of buffering countries against the impact of the economic and financial crisis, but much remains to be done. Strong regional platforms and South-South cooperation could serve as a basis to address development challenges and implement innovative solutions through enhanced and strengthened coordination and collaboration.

The present report is submitted to the Council in accordance with General Assembly resolution 1823 (XVII) and Economic and Social Council resolution 1817 (LV). The report examines, in chapter I, how the different regions are being affected by the multiple crises, how they are responding, how these efforts and initiatives could be further enhanced, and how the five United Nations regional commissions are supporting Member States in these efforts. Chapter II of the report covers developments in selected areas of regional and interregional cooperation, including other policy matters addressed during the regional commissions' ministerial sessions, and further efforts to promote coherence at the regional level, including through the regional coordination mechanism convened by the regional commissions, as well as ongoing cooperation among the commissions.

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I. Regional perspectives on the global agenda

A. The global economic and financial crisis

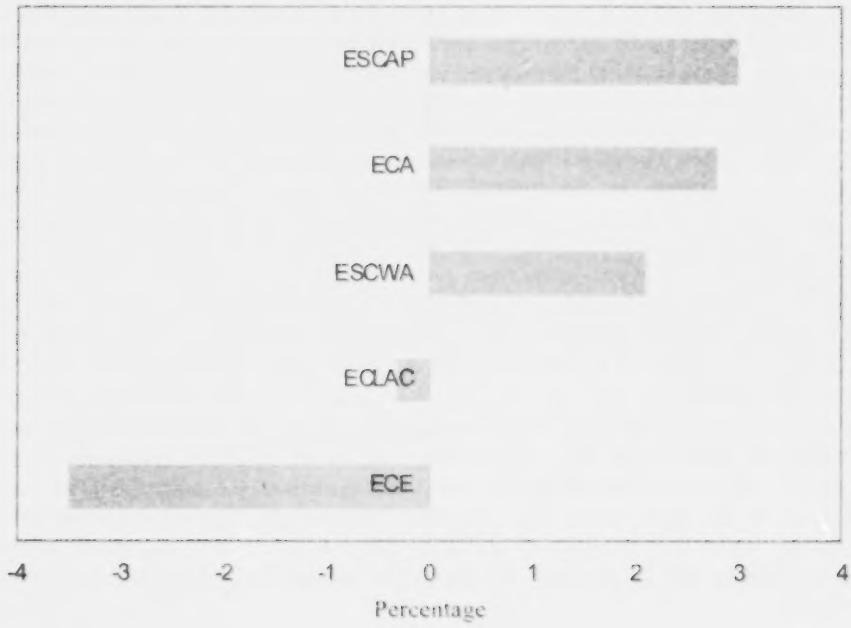
1. The effects in the different regions

1. Since the global economic and financial crisis became full-blown, it was uncertain to what extent and in what ways the different regions would be affected by it. Initially, there was the perception that Asia and the Pacific would be shielded from the impact of the crisis — which was initially mainly financial in nature — because of the sound macroeconomic policies it had put in place since the crisis of the 1990s and because of the large volumes of foreign exchange reserves that it had accumulated during the past decade. There was also the perception that many countries in Africa, except for the most developed ones in the region, would not be as severely affected because they were not as exposed to the financial channels of contagion. Both of these hypotheses proved to be wrong once the crisis began affecting the real economy with a decline in global aggregate demand and the consequent contraction of trade and other private investment flows. It is now evident that all regions are experiencing enormous challenges emanating from the crisis (see figure I).

2. The epicentre is the Economic Commission for Europe (ECE) region and, between late 2007 and 2008, economic growth in its advanced economies turned negative. Between 2008 and 2009, annual real growth in the region as a whole is forecast to fall from -1.5 to -3.5 per cent. The emerging European economies in particular have been hit hard — suffering from a sudden halt in capital inflows while lacking the fiscal space to implement expansionary monetary and fiscal policies.

3. In the Economic and Social Commission for Western Asia (ESCWA) region, between 2008 and 2009, gross domestic product (GDP) growth is expected to fall from 6.1 to 2.1 per cent. The Gulf Cooperation Council countries, which are now suffering from large declines in oil prices and depressed real estate markets, will see growth fall from 5.8 to 1.1 per cent. The economies in the Economic Commission for Latin America and the Caribbean (ECLAC) region are also experiencing falls in commodity prices, which for some countries make up a large part of GDP, as well as from declining flows of remittances. This will depress economic growth across Latin America and the Caribbean where, after six years of expansion, according to ECLAC estimates, GDP is expected to contract 0.3 per cent. In the Economic Commission for Africa (ECA) region, preliminary evidence also indicates slower growth. Growth forecasts for Africa in 2009 are being reduced by between 2 and 4 percentage points. In the Economic and Social Commission for Asia and the Pacific (ESCAP) region, the developing economies initially showed resilience since, following the Asian financial crisis in 1997, they had implemented wide-ranging financial and regulatory reforms. Now, however, they are feeling the effects through declining trade, on which the region is heavily dependent. As a result, compared with 5.8 per cent growth in 2008, the ESCAP region is expected to grow by only 3 per cent in 2009. This is nevertheless faster than in many other parts of the world and, given the scale of the region's economies, Asia and the Pacific is still likely to be the locus of global growth in 2009.

Figure I
Real GDP growth by region, 2009



Source: Based on data from the regional commissions.

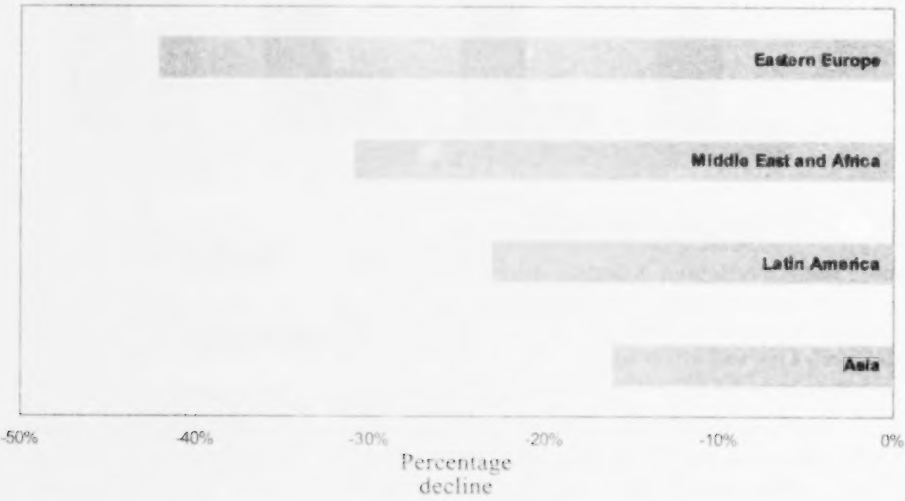
4. **Despite rescue measures, risks remain**: The International Monetary Fund (IMF) estimates that toxic assets held by banks and financial institutions, most of which are in the developed ECE economies, could reach $4 trillion. Since their exposure is on such scale as to threaten systemic failures in banking systems, Governments have been assembling rescue plans — unloading the toxic assets from bank balance sheets as well as recapitalizing the banks so they can resume normal lending operations.

5. A further source of vulnerability in many places, including emerging European economies, is that foreign capital is drying up. This is not yet a severe issue for the major economies in the ESCWA and ESCAP regions, which have relatively low levels of non-performing loans — currently under the 8 per cent threshold. But if the credit crunch worsens, many other enterprises and banks will come under stress. In the ECA region, many of the banks are foreign owned, exposing them to a risk that their owners may choose to offer less support to operations in Africa or sell their assets, with serious consequences for Africa's financial sector.

6. **Falling equity prices**: All regions first felt the impact of the economic crisis through rapidly declining equity markets — in some cases coupled with massive outward capital flows and an associated depreciation in exchange rates. The ECE

region, especially the emerging markets in Eastern Europe, has substantial exposure to foreign capital, and since September 2008 markets have declined by over 40 per cent. Most African countries, on the other hand, with less developed financial markets and limited links with the global financial markets, have been insulated to some extent from the global financial crisis. Nevertheless, countries such as Egypt and Nigeria, with more developed financial markets, have taken a hit: between March 2008 and March 2009, their stock market indices declined by approximately 67 per cent. Some countries in the ESCAP region have also recorded sharp declines, though the losses in Asia and the Pacific as a whole have generally been lower than elsewhere (see figure II).

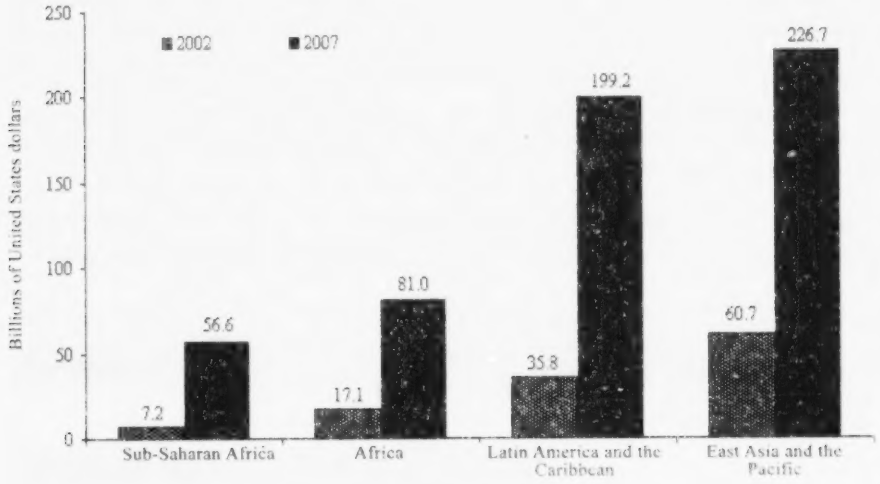
Figure II
Regional emerging markets equity indices, 19 September 2008-16 April 2009



Source: ESCAP calculations, based on data from MSCI Barra.

7. **Capital flows have been drying up**: The global economy has seen a reduction in all categories of capital flows including official development assistance (ODA), foreign direct investment (FDI) and remittances. This has affected developing countries in all five regions, though to varying extents. Over the past decade, all five regions have seen dramatic increases in capital flows (see figure III). These are now under threat. Countries in the ECLAC region, for example, have already seen a drop in FDI. One of the triggers has been a fall in commodity prices since most of the region's FDI comprises investment in natural resources. The ESCAP region has also been affected: after rising significantly during the past decade, FDI inflows have started to decline.

Figure III
Net private capital flows to developing country regions, 2002-2007



Source: Economic Commission for Africa.

8. Many developing countries also depend heavily on remittances. As migrant workers lose their jobs, remittances are expected to fall. Indeed, an increase in the return of unemployed migrants in Asia and in the ESCWA region has already been reported. This will affect some of the poorer countries in the ESCAP region as well as countries in the ECLAC and ECA regions.

9. Despite these declines, FDI and remittances are historically seen to be more stable sources of capital inflows, while ODA is not. Even in normal times, ODA is highly volatile and often procyclical with the recipient country's GDP. Pressures are mounting in major donor countries to recapitalize financial institutions and support other ailing industries — leaving less available for ODA. Among recipients likely to suffer most from falling ODA are the least developed countries in the ECA region.

10. **Sharp-falls in commodity prices**: Following the slump in global demand, the commodity price boom has turned to bust. Since their peak in mid-2008, oil prices, for example, have fallen by more than 70 per cent, energy prices by 60 per cent, and prices for food and metals by nearly 36 per cent. This is hurting many developing countries in Africa and Latin America that are heavily dependent on primary exports. Organization of Petroleum Exporting Countries members have now cut production, but oil prices are expected to remain below $60 per barrel for 2009 with serious consequences for oil exporters, not just in the ESCWA region but also in North and Central Asia.[1]

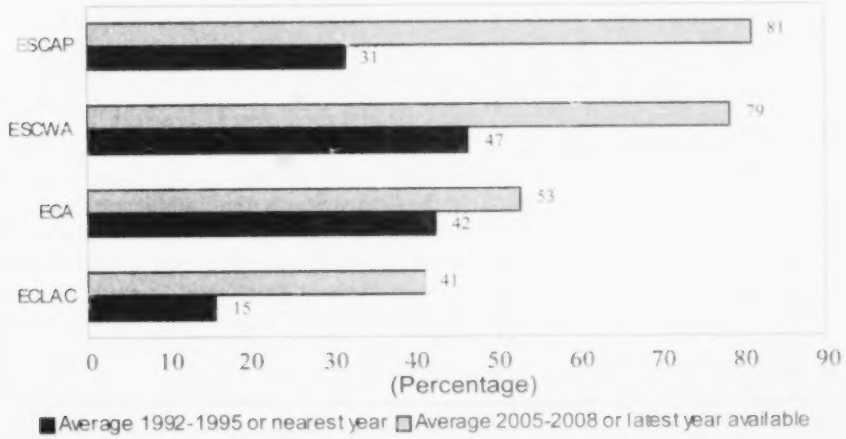
11. On the other hand, many non-oil producing countries and regions will benefit from the relatively low prices of oil and other commodities, and a consequent easing of inflationary pressures. The volatility of oil prices in 2007 and 2008 has made it

[1] IMF, *Global Financial Stability Report: Responding to the Financial Crisis and Measuring Systemic Risks, April 2009* (Washington, D.C., 2009).

difficult for countries to make the necessary plans for meeting basic energy and subsistence needs.

12. **Contracting global trade**: Falling global demand and the drying up of trade finance have dramatically reduced trade. Given its high trade orientation, the ESCAP region will be hit particularly hard. This is especially the case in some of the export-oriented South-East Asian economies where, during 2008, exports switched from double-digit growth to double-digit decline. These countries are particularly exposed because they have focused on meeting consumer demand in developed countries. And while in recent years they have also increased exports to developing Asian markets, this is unlikely to serve as much of a cushion because a lot of this intraregional trade, especially with China, consists of manufactured parts and components which are assembled in China but are destined for developed country markets. Many African countries also depend on a few key exports, such as textiles and cut flowers, and have seen their trade income fall.

Figure IV
Total trade as a percentage of GDP (constant 2000 prices)



Source: IMF statistical databases, http://www.imfstatistics.org/imf/, as at 5 May 2009.

13. **Rising unemployment, increasing poverty**: Sharp declines in aggregate demand across all five regions are taking their toll on industrial production and leading to rising unemployment. Factory closures and layoffs will hurt the working poor, especially women and youth, as the manufacturing industry employs large numbers of unskilled workers. This will place an enormous economic burden on many developing economies. In the ESCAP region, the 1997 crisis showed that when people are hit by sudden shocks, the most vulnerable groups are women and children, youth, the elderly and socially marginalized groups. The damage also lasts much longer than the crisis itself. After the 1997 Asian financial crisis, for example,

economic growth resumed relatively quickly, but some countries took up to 10 years to recover the ground they had lost in the struggle against poverty.[2]

14. As the crisis unfolds, it is estimated that in 2009, up to 23 million workers in Asia and the Pacific could lose their jobs. In the ECLAC region, unemployment in 2008 was 7.5 per cent, but in 2009 it is expected to rise to between 8.5 and 9.0 per cent. In the ECE region, by 2010, unemployment rates in the United States of America, Europe, Turkey and the Commonwealth of Independent States (CIS) are likely to reach double digits. In sub-Saharan Africa, the International Labour Organization estimates that in 2009 as many as 3 million workers could lose their jobs. And in most regions, the economic crisis is likely to push a large number of workers in developing countries into vulnerable employment in the informal sector — which already absorbs a high proportion of the workforces, especially women.

2. Responses to the crisis

(a) Country-specific responses

15. Governments in the different regions have implemented measures aimed at restoring confidence and unlocking financial markets and at stimulating weakened aggregate demand. The fact that the list of measures is long and varies among countries is due both to the differential impact that the crisis has on each individual country and to the differences that exist among them in terms of availability of resources and, therefore, their capabilities to implement certain policy responses.

16. At the initial stages of the crisis, most of the responses were focused in the United States and in Western Europe. In the United States, the Emergency Economic Stabilization Act of 2008, passed in October, allocated $700 billion to enable the Treasury to recapitalize banks.[3] The Federal Reserve also adopted a full package of monetary measures to inject liquidity into markets in an attempt to ease the credit crunch. In February 2009, Congress enacted the fiscal stimulus American Recovery and Reinvestment Act, amounting to $787 billion dollars and estimated at 2.1 per cent and then 2.4 per cent of GDP over 2009 and 2010.[4] With this package, the federal Government will provide unprecedented levels of support into infrastructure, education, research, energy, health care and state government. In the first quarter of 2009, additional bailout packages were adopted for the housing sector and the car industry.

17. In the European Union, the European Central Bank has reduced its policy rate by 300 basis points since October 2008, and European Union member States have introduced new discretionary fiscal measures to support demand, amounting to almost 1 per cent of GDP in 2009, with an additional but somewhat smaller stimulus in 2010.[4]

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[2] International Labour Office, *Global Employment Trends: January 2008* (Geneva, 2008).

[3] *World Economic Situation and Prospects 2009* (United Nations publication, Sales No. E.09.II.C.2).

[4] Organization for Economic Cooperation and Development, *OECD Economic Outlook 2009, Interim Report*, March 2009.

18. Asian countries soon followed suit, and China enacted a fiscal stimulus package amounting to $586 billion. In Japan, the Government recently announced a package totalling about $570 billion, in addition to the $750 billion stimulus package already being implemented.[5] Other countries in the region, like India are highly exposed to the consequences of the crisis but have been hampered by existing budget deficits. A major concern in the region is that fiscal stimulus packages may not pay sufficient attention to social programmes.

19. Most developing countries in the Africa, Latin America and the Caribbean and ESCWA regions have taken significant measures to avert the impact of the crisis. Most of the regions turned to monetary policy as the first line of defence against the crisis. However, the conventional method of aggressive interest rate cuts to inject liquidity into the financial system, has reached it limits in some economies. Hence, other measures have also been taken, including the recapitalization of financial institutions, measures to increase liquidity to banks and firms, fiscal stimulus, trade policy changes and regulatory reforms. The measures adopted differ from country to country depending on the available fiscal space as well as the degree of vulnerability to the crisis.

20. Particularly vulnerable because of their limited fiscal policy space and dependence on foreign direct investment and ODA are most of the sub-Saharan African countries, the Eastern European emerging economies, landlocked developing countries and small island developing States. Instead of being able to expand fiscal and monetary policy to stimulate demand as the advanced economies have been able to do, they have been forced to tighten these to demonstrate to world capital markets that there will be no defaults or inflation that would destroy asset values. Automatic stabilizers are also weak for these economies.[6]

(b) Regional responses

21. In the Asia-Pacific region, as an important first step in regional cooperation, the ASEAN Plus Three[7] Finance Ministers agreed on 22 February 2009, to accelerate the implementation of a financial cooperation framework. The twofold framework is comprised of the Chiang Mai Initiative and the Asian Bond Markets Initiative. Under the Chiang Mai Initiative, a network of bilateral currency-swap arrangements, enables a member country hit by a currency crisis to borrow foreign currency from other member countries. The recent agreement by the ASEAN Plus Three Finance Ministers paves the way for the conversion of the existing bilateral fund of $80 billion to a multilateral pool of $120 billion with 80 per cent of the new funds being provided by Plus Three countries while the remainder will come mainly from the more developed ASEAN economies. Nevertheless, many issues remain unresolved before this agreement can truly evolve to fulfil its function in the event of a balance-of-payments crisis. For example, deployment of the funds would

[5] Statement by the Permanent Representative of Japan to the United Nations at the Special High-level Meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development, held in New York on 27 April 2009.

[6] More detailed information about country-specific responses to the crisis in the different regions is available in a joint publication by the five regional commissions entitled "The global financial crisis: impact and response of the regional commissions".

[7] ASEAN Plus Three consists of the 10 member countries of the Association of Southeast Asian Nations, plus Japan, China and the Republic of Korea.

require a strengthened ASEAN process of monitoring and surveillance to oversee the requirements tied to the lending of funds to any Government. An expansion in the scope, coverage and participation in the initiatives would also be desirable to enhance its effectiveness.

22. On the trade front, the Government of Japan announced that it would set up a fund of $1 billion through the Japan Bank for International Cooperation, in collaboration with the Asian Development Bank. The fund will provide loans to financial institutions in developing countries to help companies to ensure access to much needed trade finance.

23. In Africa, Ministers of Finance and Planning and Governors of Central Banks met in Tunis on the 12 of November 2008 to discuss the implications of the financial crisis for Africa and identify appropriate policy responses to cushion its impact in the region. The meeting was jointly organized by ECA, the African Development Bank, and the African Union Commission. In the communiqué issued at the end of the meeting, the ministers and governors emphasized the need for bold and decisive actions to mitigate the effect of the crisis on African economies. These recommendations were presented and discussed by African Heads of State and Government at their summit in Addis Ababa in January 2009. At the Tunis meeting, the African Ministers and Governors of Central Banks also set up a Committee of Ten to monitor developments, provide regular follow-up to and advice to ministers and governors on proposals that contribute to the international discourse in relation to the economic impact of the financial crisis and mitigating measures. The Committee had its first meeting in Cape Town, South Africa on 16 January 2009, and the second meeting was held in Dar es Salaam, on 11 March 2009. These coordination meetings have helped to build an African consensus on the crisis and on how the international community could assist countries in the region to respond to it. ECA has been providing research support to African countries on the financial crisis and continues to provide technical assistance to enable African countries to build capacity for policy design and implementation, including deepening economic reforms.

24. In the ECE region, the severity and extent of the crisis has required enhanced cooperation among the ECE member countries. The advanced economies of ECE have responded to the crisis with unprecedented fiscal stimuli and monetary easing. However, it is generally believed that the response has been below what was required because the effects of the crisis have continued to unfold. The fiscal stimulus packages in North America and Europe consisted of both spending increases and tax cuts. Approximately two thirds of the United States 2009 stimulus package consisted of additional spending and one third was tax reductions; approximately a third of the spending was for infrastructure projects.

25. The major economies of the region were involved in the Group of 20 (G20) process by which the G20 agreed to a number of significant measures, including an additional $1.1 trillion for an IMF programme of support to restore credit, growth and jobs, at a summit on the economic and financial crisis that took place in London on 2 April 2009. The G20 also agreed to support a substantial increase in lending of at least $100 billion by the multilateral development banks, including to low-income

countries, and to ensure that all multilateral development banks have appropriate capital.[8]

26. Additionally, in February 2009, the European Council agreed on a European Economic Recovery Plan, equivalent to about 1.5 per cent of GDP of the European Union (a figure amounting to around 200 billion euros (€)). The plan provides a common framework for the efforts made by member States and by the European Union, with a view to ensuring consistency and maximizing effectiveness. In this context, the European Central Bank and other central banks considerably reduced their interest rates, thereby supporting non-inflationary growth and contributing to financial stability.[9]

27. In early 2009, European Bank for Reconstruction and Development (€6 billion), the European Investment Bank (€11 billion), and the World Bank (€7.5 billion) put together a €24.5 billion package of support for the European emerging economies, especially their financial sectors. The European Union enlarged its balance of payments assistance fund for non-euro economies to €25 billion in early 2009 and then doubled it to €50 billion in March. The issue of early euro accession for the non-members was raised but rejected by the existing members.

28. There has been only limited regional cooperation or coordination in addressing the crisis among the CIS countries. The Russian Federation, despite its own serious economic situation, has increased its financial support for neighbouring economies. In early 2009, it proposed an anti-crisis fund within the framework of the Eurasian Economic Community of about $10 billion to aid primarily the other CIS economies. This fund is supposed to work with the Eurasian Development Bank in identifying joint projects that can help in these economies' response to the crisis.

29. Countries in the ESCWA region have participated in a number of regional efforts to confront the current crisis by: (a) participating in an Arab economic summit; (b) for some major ESCWA countries, co-coordinating endeavours as Organization of Petroleum Exporting Countries (OPEC) members; (c) co-coordinating regional efforts through ESCWA; and (d) strengthening economic ties with developing countries.

30. In an unprecedented effort to coordinate measures between the Arab countries in the aftermath of the global financial crisis, Kuwait hosted the first ever League of Arab States Economic, Development and Social Summit, on 19 and 20 January 2009. In the latest OPEC meeting in Vienna, on 15 March 2009, member countries emphasized their commitment to stabilizing the prices of oil at current levels since this would facilitate worldwide efforts to mitigate the negative impact of the crisis. As an active regional institution, ESCWA took a number of initiatives to mitigate the impact of the financial crisis on member countries, including preparing technical papers and organizing regional consultative meetings.

31. In Latin American and the Caribbean, regional and subregional financial institutions have been playing a key role in supporting countries in their implementation of anti-cyclical policies to mitigate the impacts of the economic crisis. Among them, the Inter-American Development Bank (IDB) has announced

[8] Leaders' statement on the global plan for recovery and reform, 2 April 2009.

[9] Council of the European Union, Presidency Conclusions (17271/1/08 Rev.1), 11 and 12 December 2008.

that it is prepared to approve up to a record $12 billion in 2009, up from around $10 billion in 2008, and it also created a new fast-disbursing liquidity facility of $6 billion that "provides funding for countries facing transitory difficulties in accessing international credit markets due to the financial turmoil".[10] This would be the largest and most rapid mobilization of resources in the 49-year history of IDB. In turn, the Andean Development Corporation has raised the credit lines it has available for financial institutions of its member countries from $1.5 billion to $2 billion and the Latin American Reserve Fund has offered its liquidity credit lines of $1.8 billion to countries, and it announced last year that it could make available another $2.7 billion. IDB is coordinating efforts with several other multilateral institutions such as the World Bank, the Caribbean Development Bank, the International Finance Corporation, the Andean Development Cooperation and the Latin American Reserve Fund to ensure that resources are provided in a quick manner to requiring countries. In the first Latin American and Caribbean Summit for Integration and Development, held in Brazil in December 2008, countries agreed to, inter alia: discuss creating a regional and subregional financial architecture for the further integration of financial markets in the regional and subregional spheres; develop or strengthen regional mechanisms for balance-of-payments stabilization; promote further cooperation between national and regional development banks; and consider the establishment of a mechanism for trade payments in local currencies.

(c) Acting at the regional level: policy recommendations

32. With the global economy tossed in the throes of the worst economic recession since the Second World War, a consensus has emerged on the need for actions at the global, regional and national levels in order to recover from the crisis as expeditiously and painlessly as possible and to prevent the recurrence of a similar crisis in the future. To that end, the five United Nations regional commissions have been advocating a number of policy recommendations from a regional perspective[6] (see box 1).

Box 1
Acting at the regional level: selected policy recommendations

It is recommended to:

(a) Renew political commitment to international cooperation and integration in recognition that the economic and financial crisis requires regional and global solutions;

(b) Establish regional contingency plans to respond quickly to liquidity and recapitalization of domestic banks;

(c) Accelerate the establishment of regional surveillance systems that focus on emerging risks and that continue to monitor the impacts of the crisis in the different regions;

(d) Enhance regional coordination regarding domestic governance structures and regulations to strengthen the regulation and oversight of the financial sector;

[10] IDB News release, available from http://www.iadb.org/news/detail.cfm?language=English&id=4806.

(e) Strengthen the regional financial architecture, as a complement rather than as a substitute to the international financial architecture;

(f) Establish or strengthen regional institutions (where they exist) specifically dedicated to export credit and export credit guarantees in the form of regional trade financing facilities;

(g) Strengthen interregional and intraregional trade and investment. By tapping into the potential of South-South trade and investment, the different regions can soften the impact of the current and future economic crises through market expansion and tapping into its own resources of economic growth;

(h) Strengthen regional coordination of monetary and fiscal policies in the different regions in order to move from crisis resilience to crisis resistance, including proposals for coordinated macroeconomic management through counter-cyclical policies;

(i) Institutionalize and increase the voice and participation by developing countries of the different regions, in particular Africa, in the Bretton Woods institutions and other policymaking bodies such as the G20 in order to better reflect the circumstances and conditions of vulnerable countries being impacted by the crisis.

B. Food and energy security

1. Setting the stage

33. Between 2002 and 2008, the price of crude oil soared, reaching an all-time record of $147 per barrel in July 2008, then fell precipitously as the international financial crisis deepened and economic activity slowed across the globe. On the last day of 2008, crude oil was trading at $36 per barrel.

34. Food commodity prices followed a similar, though more moderate, trend. Between 1998 and 2007, the price of crude oil increased at an annual average rate of 21 per cent, reaching $72 per barrel in 2007. It accelerated even more in the first half of 2008, reaching historic daily highs of more than $140 per barrel in July 2008. The price of food has also increased sharply since 2000, although not as fast as the price of crude oil. By the end of 2008, the price of Brent crude oil plummeted to less than $40 per barrel, 70 per cent below its peak in July. The food price index also dropped, although less dramatically.[11]

35. In 2007, IMF analysed the causes of higher food prices, the effects on global inflation and whether a surge in biofuels production would be beneficial.[12] IMF estimated that the increase in the demand for biofuels accounted for 70 per cent of

[11] See footnote 6 above, data from chap. 2.

[12] IMF, *World Economic Outlook, October 2007: Globalization and Inequality* (Washington, D.C., 2007).

the increase in maize prices and 40 per cent of the increase in soybean prices between 2007 and 2008.[12]

36. While the use of biofuels may entail certain opportunities and benefits, there is a risk that higher food prices, driven by decreased crop yields for food supply, may have severe negative implications for the food security of the world's poorest people. In addition, demand for biofuels could place substantial additional pressure on the natural resource base, with potentially harmful environmental and social consequences.[12] To diminish these risks, there is a need to develop analytical and policy frameworks for biofuel production that take into account the diversity of situations and the specific needs of countries. Regional and subregional guidelines for the development of these frameworks could be useful. South-South, North-South and triangular cooperation could promote continued research and development with a view to continuously enhancing the sustainability of biofuels and other bioenergy sources.

37. While world demand for petroleum[13] has grown steadily for the last 10 years, production has often lagged behind. As a result, the world's spare capacity of crude oil — unused production capacity that can be called upon in case of disruption — dropped from 5 million barrels per day to 1 million barrels per day in 2007. A major reason for the sluggish supply response has been the increased difficulty and costs of extracting oil from new fields combined with relatively low energy prices throughout the 1990s.[14]

38. Owing to continuing strong economic growth, China and India account for just over half of the increase in world primary energy demand between 2006 and 2030. Middle East countries are adding their demand by a further 11 per cent to incremental world demand. Collectively, non-OECD countries account for 87 per cent of the increase. As a result, their share of the world primary energy demand rises from 51 per cent to 62 per cent.[15] The bulk of the increase in world oil output is expected to come from OPEC countries, their collective share rising from 44 per cent in 2007 to 51 per cent in 2030.[15]

2. Regional landscapes and impacts of the food and energy crisis

39. The Asia and the Pacific region is the home to the largest number of food-insecure people in the world, albeit with important variations among the subregions and countries in the region. Currently, 64 per cent of the world's undernourished population lives in Asia and the Pacific, making the region a determining cornerstone in the fight against hunger. The overall food insecurity situation at the regional, subregional, national and subnational levels is serious: 542 million people suffer from food insecurity in Asia and the Pacific, out of which 314 million live in South and South-West Asia.

40. Growth in food demand in Asia and the Pacific is driven by demographic expansion as well as by improved living standards, which have caused per-capita consumption of livestock products and other edible goods to increase. Since the

[13] Petroleum includes crude oil, natural gas and other liquids. Over the period 1998-2006, crude oil represented 87.6 per cent of total petroleum production.

[14] IMF, *World Economic Outlook, October 2008: Financial Stress, Downturns and Recoveries* (Washington, D.C., 2008).

[15] International Energy Agency, *World Energy Outlook 2009* (to be issued).

1960s, food availability in Asia and the Pacific has grown faster than food demand. However, the pace of yield growth has been slackening, partly because of the environmental constraints on agricultural intensification, and partly as a consequence of lagging support for agricultural research and development.

41. Although energy is not a Millennium Development Goal itself, it is essential to achieving most of those goals. Hence, the fact that 1.7 billion people rely on biomass for energy, and 800 million people have little access to electricity in Asia and the Pacific is of serious concern to the region. The region's energy consumption per capita is approximately 30 per cent less than the global average. With energy intensity about 20 per cent higher than the global average, the region has a significant potential to conserve energy. Efforts are needed to link energy efficiency not only to energy security and climate change but also to poverty reduction or development in general.

42. In Africa, food security is most fragile and the impact of the crisis is more dramatic in sub-Saharan Africa. Domestic prices are much higher than 12 months ago in all countries, while prices of maize, millet and sorghum are higher in 89 per cent of countries compared to a year earlier.[16] The number and the proportion of undernourished people had substantially decreased between 1995-1997 and 2003-2005, by nearly 18 million and 4 per cent, respectively. However, even before the global food crisis, extreme poverty and chronic hunger affected, respectively, over 40 per cent and nearly 33 per cent of the total population. The urban poor, together with food-deficit farmers, are the worst affected because, in their majority, they are net purchasers of food.

43. Africa is a very vulnerable region where: the livelihoods of two thirds of the population depend directly or mainly on agriculture; over two thirds of the total population living in extreme poverty are rural dwellers; 47 countries depend on imports for almost 60 per cent of their domestic consumption of major grains (wheat, rice and maize), and at least $25 billion is spent each year on commercial imports of food and agricultural products, in addition to some $2 billion dollars of food aid; close to one third of the total population suffered from chronic hunger even before the advent of the crisis at the global level. Africa is home to 15 of the 16 countries where the prevalence of hunger exceeds 35 per cent.

44. In the ESCWA region, countries have been affected by the global food crisis owing to their dependency on food imports, which represents 50-100 per cent of their food needs. Net food imports account for 5-10 per cent of total imports in the ESCWA region, with wheat being the region's most popular foodstuff. While Gulf countries import 100 per cent of their staple foods, their economies are often cushioned by cash surpluses from oil revenues, as opposed to non-oil exporting countries in the region that are more fiscally challenged in mitigating the impact of higher prices, notably on the urban poor, rural landless, and marginalized farmers who are the most affected in the majority of the countries in the region.

45. Regarding energy, oil and gas constitute the bulk of ESCWA exports, notably to developed countries. During the period 1997-2005, mineral fuels averaged around 64 per cent and 81.7 per cent of total ESCWA exports to the European Union countries and the United States, respectively.[17] Oil prices and production are

[16] FAO, *Crop Prospects and Food Situation*, No. 2 (April 2009).

[17] ESCWA calculation based on the United Nations-Comtrade database.

expected to fall sharply in 2009. Thus, it is expected that the region's exports will be hit considerably. Throughout the region, efforts are being carried out to reduce the dependency of the region on petroleum-related exports and to diversify the economy to other areas of production.

46. In the ECE region, global energy security risks increased sharply in 2008 because of the volatility of oil prices arising from the financial crisis. This reduced energy demand and had repercussions on the timing and volume of investments along the energy supply chain, including the electricity sector. The potential for global supply disruptions that could affect the ECE member States also arose from international tensions, lengthening supply routes, the concentration of hydrocarbon resources in a limited number of the world's subregions and the restricted access of oil and gas companies to developing the hydrocarbon reserves in some countries.

47. In the Latin America and the Caribbean region, agriculture has for many years been a source of economic growth and well-being. Between 1990 and 2005, the sector grew an average of 3 per cent per year, a higher rate than the overall economy. Yet, the region is now threatened by the recent rise in staple food prices. In July 2008, the Plurinational State of Bolivia, Colombia, Nicaragua, Paraguay and Trinidad and Tobago all had food inflation rates of more than 20 per cent compared with July 2007. The price of food in the Bolivarian Republic of Venezuela was nearly 50 per cent higher for the same period. In Haiti, the price of rice had gone up by 89 per cent in July compared with July 2007, and in the Plurinational State of Bolivia, rice had doubled over the same period. The surge in food prices was closely associated with rising energy prices, not only because of higher production and distribution costs for food (fertilizers and transportation costs), but also because of the increased use of alternative fuels made from foodstuffs.

3. Acting regionally towards food and energy security: policy responses and recommendations

48. Governments across the globe are responding to the multiple and interrelated crises (food, fuel, financial and economic and climate change) by allocating sizeable portions of their fiscal stimulus packages to social investments, including agricultural and rural development, food-aid programmes and investments consistent with a low-carbon economy. For example, about 38 per cent of the Chinese stimulus package is allocated to transport, energy and water infrastructure projects and 5.8 per cent to sustainable development.[18]

49. As part of promoting regional dialogue to address the multiple crisis in the Asia-Pacific region, ESCAP and the Government of Indonesia jointly organized the High-level Regional Policy Dialogue on "The food-fuel crisis and climate change: reshaping the development agenda", in Bali on 9 and 10 December 2008. The High-level Policy Dialogue was held to address the food-fuel crises and climate change in a comprehensive and integrated manner. The main objective of the Dialogue was to find strategies in addressing the impact of these crises and to prevent those crises from becoming a development emergency. Research and development on sustainable agriculture, including its potential for climate adaptation and mitigation, along with the necessary financial resources, are urgently needed. Arrangements should be made for the sharing of experiences and the transfer of best practices.

[18] *The Economic Observer*, 7 March 2009.

50. Changing the paradigm of growth from a "quantity of growth" to a "quality of growth" approach is critical to addressing developmental needs as well as the environmental dimension (see box 2).

Box 2

The ESCAP Green Growth initiative — towards a low-carbon development path

ESCAP is launching an initiative on sustainable energy security, which includes promotion of a low-carbon development path in the region. The focus of the initiative is to facilitate developing countries to identify and adopt a set of development strategies for the energy sector that could enhance energy security, climate change actions and poverty reduction. Such strategies should enable countries to decouple economic growth and environmental degradation and pursue a path of sustainable and inclusive development. Those strategies will include widening access to energy services to all, particularly the poor through renewable energy or promoting energy efficiency at all levels of society.

51. As part of the strategy of promoting a paradigm shift towards sustainable energy security, it is also important to identify short-term strategies that would enable the region to address the shortfall of energy supply that needs to be met through energy trade and cooperation. In this connection, ESCAP is facilitating a policy dialogue among member States to promote transboundary energy trade and cooperation.

52. Despite significant challenges, Africa has great potential for harnessing its resources to increase considerably food production and supply not only for the continent, but also for the global markets. The region is not short of land or water. Only 45 per cent of the total area suitable for agriculture is currently exploited and only 4 per cent of the available water resources are used, while only 6 per cent of the arable land is irrigated. For this reason, there has been renewed political interest among African leaders and their development partners in supporting agriculture as a sectoral priority. Indeed, the New Partnership for Africa's Development (NEPAD) has been instrumental in bringing up agriculture on the national and international policy agenda with the adoption in 2003 of the Comprehensive Africa Agriculture Development Programme framework.

53. However, a major impediment to the implementation of the framework is the high degree of fragmentation of the African agricultural market among the 53 countries and more than a dozen subregional groupings. From an economic standpoint and within the framework of an increasingly global economy, this landscape is simply not optimal enough to provide for the levels of economies of scale, economies of vertical coordination, and economies of complementarity that would allow the realization of full competitiveness gains and intraregional trade potential for Africa's agricultural systems.

54. A broader regional approach to diversification and specialization in agriculture is needed if Africa is to address food security and realize the full potential of agriculture transformation for improved livelihoods and development. Key elements

of this regional approach to agricultural development include: (a) advancing regional integration for investment and trade in agricultural strategic commodities; (b) moving market integration beyond national and subregional levels by establishing the Common African Market for Agricultural Products; (c) creating an appropriate environment to allow for profitable and secure private investment in coordinated regional agricultural input and commodity value chains; (d) supporting regional research and development on strategic commodities through the creation of centres of excellence to conduct research on the value chain of strategic commodities.

55. In the ESCWA region, national policy responses to the crisis have been primarily economy-wide policies, including expanding subsidy programmes, instituting price controls or export restrictions, and reducing taxes on foods. There have also been some notable social protection programmes, including cash transfer programmes. Moreover, Jordan, the Syrian Arab Republic and Palestine have recently expanded or instituted school feeding programmes that have proven beneficial in responding to the food crisis, since they contribute not only to improved nutrition and health for school-aged children, but also to higher rates of school enrolment and a reduction in child labour. Despite these efforts, the need for devising targeted social safety-net programmes remains compelling.

56. In order to address the current food crisis collectively, in April 2008, countries in the region, under the auspices of the Arab Organization for Agricultural Development, issued the Riyadh Declaration on Promoting Arab Cooperation to Face the Global Food Crisis. The declaration calls for sound trade and investment schemes to boost food security in the short and long terms, including through forging public-private partnerships and enhancing inter-Arab agricultural trade.

57. As such, given the significant constraints faced by the region for increasing local agricultural production, South-South cooperation emerges as a central strategy for establishing long-term food security within the region. The benefits of such South-South cooperation can be mutual, providing opportunities for technology transfer and improved productivity in the agricultural sectors of partner countries, while also allowing for greater food security for the Gulf countries. However, to be mutually beneficial, such partnerships should take into account the potential risks and social impacts of these investments.

58. In the ECE region, Governments sought to mitigate the energy security risks that increased sharply in 2008, by using a range of policy options aimed at furthering the diversification and flexibility of energy systems, including the following: diversifying sources of supply; increasing domestic energy supplies; improving energy conservation and efficiency; expanding the fuel mix available to consumers; and encouraging research and development in greening the fossil fuel energy supply chain. The American Recovery and Reinvestment Act of the United States included more than $60 billion in clean energy investments that should contribute to jump-starting the economy and building clean energy employment opportunities. The European Economic Recovery Plan contains a mix of measures, including increasing annual investments for energy and climate related infrastructure by up to €6 billion per year for the next two years. Several European countries, including France, Germany and the United Kingdom, have included considerable energy efficiency and renewable energy components in their economic recovery packages.

59. In line with the above, the sustainable energy projects of ECE aim to facilitate the transition to a more sustainable and secure energy future by optimizing operating efficiencies and conservation, including through energy restructuring and legal regulatory or energy pricing reforms. For the period 2006-2009, the ECE Energy Efficiency 21 project is working to promote regional cooperation to enhance countries' energy efficiency and to reduce their greenhouse gas emissions. Outreach activities to other regional commissions in the context of energy efficiency for climate change mitigation are being organized under the Global Energy Efficiency 21 project. This project, launched in Poznan, Poland, in December 2008 in Poznan, Poland, will develop a systematic exchange of information on capacity-building, policy reform and investment project financing to promote cost-effective energy efficiency improvements that will reduce air pollution, including greenhouse gases.

60. In Latin America and the Caribbean, Governments, non-governmental organizations and international agencies are already participating in local and regional food and nutritional security initiatives. Within the Central American Integration System, of particular relevance are the following initiatives: an agreement on the free movement of food; the implementation of the Central American Common Agricultural Policy; the Regional Programme for Food Security and Nutrition in Central America, financed by the European Union; a regional emergency plan to increase staple grain production in Central America during the 2008-2009 agricultural cycle; a regional strategy for basic grains; and the design of a regional land development strategy. The PETROCARIBE Food Fund was set up as part of the PETROCARIBE Energy Corporation Agreement, signed by 18 countries of the Caribbean and Central America. In August 2008, the countries of the extended Common Market of the South (Argentina, Brazil, Chile, Paraguay, the Plurinational State of Bolivia and Uruguay) agreed to boost exchanges of seeds, fertilizers and genetic resources, as well as of policy information, and to adopt joint positions at international forums.

61. Since the early 1990s, ECLAC has been strongly committed to the promotion of political dialogue on energy integration and security, both bilaterally and regionally. ECLAC, in conjunction with Mutual Assistance of the Latin American Oil Companies, the Regional Electricity Integration Commission and the Latin American Energy Organization, is now preparing a project entitled "Sectoral energy report for Latin America and the Caribbean", which seeks to offer Governments, institutions and the private sector in the region a vision of the current state and future outlook of the energy market (electricity, gas and oil) and energy security in the region.

II. Developments in selected areas of regional and interregional cooperation

A. Additional policy issues addressed by the regional commissions at their ministerial sessions and other high-level meetings

62. The regional commissions actively considered most of the issues highlighted in chapter I of the present report during high-level and ministerial sessions held since the 2008 substantive session of the Council. During the period under consideration, three of the regional commissions (ECE, ESCAP and ECA) held their

annual or biennial ministerial sessions. ECLAC and ESCWA organized a number of area-specific high-level meetings, at which major policy issues of relevance to the respective regions were discussed. More details about the resolutions and decisions emanating from these meetings are included in addenda to the present report.

63. At its sixty-third session, held from 30 March to 1 April 2009, ECE addressed two major issues: the economic development in the ECE region and climate change mitigation and adaptation. Under the first topic, Member States emphasized that the work of ECE had been and would continue to be important in addressing the asymmetries in the ECE region, with respect to North America and most of the European Union countries that had achieved a high level of economic integration, and to the east-west European integration that, although it had progressed significantly, remained weak in a number of important areas. The contribution of ECE in intensifying the European Union partnership with countries to the east of its borders, fostering knowledge-based innovative economies and increasing social cohesion were also encouraged as also a priority for the region, particularly in view of the economic crisis.

64. Under the second major issue, it was recommended that ECE scale up its efforts as appropriate for further integration of climate change considerations into development in the region, in supporting the implementation of the United Nations Framework Convention on Climate Change, and in putting in place strategies for combating climate change. The Convention on Long-range Transboundary Air Pollution would play a key role in addressing air pollution and climate change in an integrated way. Member States also considered that the Convention on the Protection and Use of Transboundary Watercourses and International Lakes, with its programme of work for 2010-2012 and beyond, provided a solid legal basis for the riparian countries to share, in an equitable and reasonable manner, the water resources and the risks and challenges linked to climate change.

65. The theme of the sixty-fifth session of ESCAP, held in Bangkok from 23 to 29 April 2009, was "Towards sustainable agriculture and food security in the Asia-Pacific region". Delegations requested ESCAP, as the regional hub of the United Nations, to focus on the areas where ESCAP had a comparative advantage, including policy coordination and norm-setting. The Commission resolved to implement a comprehensive framework of action addressing the financial, food and energy crises and climate change. The Commission decided to develop policy responses to sustain recovery, restore growth and avoid future global shocks, and to further the regional dialogue to address the impact of the crises on the Millennium Development Goals. It was also suggested that ESCAP should support regional cooperation to facilitate the financing of trade and investment activities, focusing in particular on those sectors most affected by the crisis, such as the food and agriculture and energy sectors.

66. The Commission also commended ESCAP for the successful convening of the first session of the Committee on Disaster Risk Reduction, held from 25 to 27 March 2009, and recognized its important role in providing a regional cooperation platform for the sharing of experience, knowledge and information to facilitate the implementation of the Hyogo Framework for Action 2005-2015. In addition, the secretariat of the Pacific Islands Forum requested the assistance of ESCAP in the organization of the Ministerial Meeting on Disability, to be held later in 2009.

67. The African Ministers of Finance, Planning and Economic Development met in Cairo, on 6 and 7 June 2009, to discuss measures for dealing with the global economic crisis. The discussions were part of the 2009 Joint Annual Meetings of the African Union Conference of Ministers of Economy and Finance and ECA Conference of African Ministers of Finance, Planning and Economic Development. The theme of this year's meetings was "Enhancing the effectiveness of fiscal policy for domestic resources mobilization". The theme of the Conference was both timely and significant as external resource flows to Africa — ODA, remittances and foreign direct investments — have been declining in the aftermath of the recent global economic and financial crisis. The discussion underscored the nexus between fiscal policy and domestic resource mobilization. It examined the nature of fiscal policy in Africa as well as challenges posed by the global financial crisis, and focused on strengthening domestic revenue mobilization, boosting private savings and directing ODA towards strengthening capacity to mobilize domestic resources.

68. Under the theme "Action on gender equality, women's empowerment and ending violence against women in Africa", the Sixth African Development Forum was jointly organized, from 19 to 21 November 2008, by the ECA, the African Development Bank and the African Union Commission. The session highlighted the major achievements in empowering women as well as the development of effective tools to accelerate progress towards ending violence against women. The Third African Economic Conference, jointly organized by ECA and the African Development Bank Group, convened from 12 to 14 November 2008 in Tunis, on the theme of "Globalization, institutions and economic development of Africa". The Conference provided a forum for the exchange of ideas among economists and policymakers with a view to improving access to information and research on economic issues as well as the quality of economic policymaking in the region.

69. During the reporting period, member countries of ESCWA, through the subsidiary intergovernmental bodies of the Commission, requested ESCWA, among other things, to provide technical assistance to member countries in the use of modern techniques in Statistical Data and Metadata eXchange and to hold specialized workshops on the methodologies for measuring Millennium Development Goals indicators. They also invited ESCWA to promote policy dialogue within member States on adaptation to climate change and undertake vulnerability assessments of water resources and related socio-economic aspects in the region in order to foster regional cooperation.

70. ESCWA shall also focus on strengthening South-South cooperation in the integrated management of natural resources, with a focus on challenges related to water, energy and climate change. In 2008, and as part of the Commission's continued support and follow-up with member countries on the implementation of the different components of the Integrated Transport System in the Arab Mashreq, Iraq became a party to the Agreement on International Roads in the Arab Mashreq and to the Memorandum of Understanding on Maritime Transport Cooperation in the Arab Mashreq.

71. During the reporting period, ECLAC hosted a seminar on the topic "The food and energy crisis: opportunities and challenges facing Latin America and the Caribbean" (Santiago, 4-5 September 2008) and provided substantive support to the Government of the Dominican Republic in the organization of a subregional summit on the theme "The emerging global financial order: a regional perspective" (22-23 November 2008). Implementing a mandate from its Committee of the Whole,

ECLAC supported the Río Group in the organization of a regional preparatory meeting for the United Nations High-Level Conference on the World Financial and Economic Crisis and Its Impact on Development (New York, 4-5 May 2009).

72. At the "Dialogue for Latin America and the Caribbean on the road to Copenhagen: 2009 climate change negotiations", organized by ECLAC, on 9 and 10 March 2009 in Santiago, Latin American and Caribbean countries exchanged views on the climate change negotiations and their implications at the national and international levels. ECLAC is also assisting several countries in carrying out studies on the economics of climate change; the studies analyse the impact of climate change at the local level in several sectors and identify its implications for specific socio-economic groups.

73. In preparation for the Economic and Social Council 2009 Annual Ministerial Review, the regional commissions partnered with WHO and the Department of Economic and Social Affairs to support volunteer countries in the holding of regional meetings. In this context, ESCAP collaborated to organize two regional ministerial meetings: the first on the topic "Financing strategies for health care" held in Colombo from 16 to 18 March 2009, and hosted by the Government of Sri Lanka; and the second on the topic "Promoting health literacy", held in Beijing on 29 and 30 April, and hosted by the Government of China. ESCWA helped to organize the regional high-level multi-stakeholder meeting (Doha, 10 and 11 May), focusing on the theme "Addressing non-communicable diseases and injuries: major challenges to sustainable development in the twenty-first century". A regional ministerial meeting on the theme of "HIV and development in Latin America and the Caribbean" was held on 5 and 6 June in Montego Bay, Jamaica, with the collaboration of ECLAC, the Department of Economic and Social Affairs and the United Nations funds, programmes and specialized agencies. The Africa Regional Ministerial Meeting focused on "eHealth — information and communication technology for health" was held in Accra, on 10 and 11 June.

B. Coherence at the regional level

1. Regional coordination mechanism

74. The Economic and Social Council, through its resolution 1998/46 (annex III), had mandated the regional commissions to hold regular inter-agency meetings in each region with a view to improving coordination among the work programmes of the organizations of the United Nations system in that region. Consequently, meetings of the regional coordination mechanism had been convened by the commissions since 1999.[19] The experience and evolution of the Regional Coordination Mechanism varied among the regions, but most of the mechanism benefited from a renewed momentum in the last few years, and more particularly since 2007 under the sponsorship of the Deputy-Secretary-General. Currently, the regional coordination mechanisms are regularly held in four regions, with an executive tier discussing broader or emerging policy issues and a thematic tier addressing specific programmatic issues of regional priorities and concerns.[20]

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[19] Albeit under different denominations prior to 2008.

[20] Regional coordination mechanisms are being held in the ECA, ESCAP, ECLAC and ESCWA regions. ECE is expected to convene the regional coordination mechanism in its region in October 2009.

75. For example, the regional coordination mechanism convened by ESCAP brought together 27 United Nations entities operating in the Asia-Pacific region to promote coherence in several policy and programme areas. A total of nine meetings of the mechanism were held in 2008. Five of these meetings were regular regional coordination mechanism sessions that had themes of relevance for the region (e.g., disaster preparedness and gender concerns in the region) and also included preparation for key events such as the ASEAN-United Nations Summit. In support of coherence in programming, a review was undertaken to provide an overview of the key areas of common interest among the mechanism's entities in the Asia-Pacific region as a basis for further progress towards improved programming at the regional level.

76. Similarly, the Review Meeting on Measures to Enhance the Regional Coordination Mechanism of United Nations agencies and organizations working in Africa in support of the African Union and its NEPAD Programme, organized by ECA, was held at Addis Ababa, on 16 and 17 September 2008. In addition to representatives of 20 United Nations organizations, the meeting brought together representatives from the African Union, the NEPAD secretariat, the African Development Bank and the economic communities of African States. The meeting addressed the further alignment of the current system of work of the regional coordination mechanism with the African Union and NEPAD priorities; the strengthening of cooperation and collaboration at the regional and subregional levels; resource mobilization for the sustainable financing of the mechanism and a system of monitoring and evaluation.

77. Representatives of 16 United Nations regional offices and 3 United Nations country offices, in addition to representatives from the World Bank, IMF, the League of Arab States and regional experts, attended the twelfth meeting of the Arab Regional Coordination Mechanism, convened by ESCWA in Beirut, on 13 and 14 September 2008. The meeting provided an opportunity for inter-agency dialogue on emerging global challenges, including the food crisis and climate change, and to ensure coherence in the approach to regional development challenges. The meeting agreed on the establishment of three thematic working groups, subsidiary to the regional coordination mechanism on: (a) the Millennium Development Goals in the Arab region; (b) climate change; and (c) food security.

78. The annual meeting of the Regional Coordination Mechanism for the Latin American and the Caribbean region was organized by ECLAC in Santiago, on 3 November 2008. It brought together representatives of 18 United Nations entities. The participants agreed that under the leadership of ECLAC, the United Nations organizations acting in the region would continue to provide policymakers and other stakeholders with comparable data and policy guidelines regarding regional progress towards achievement of the Millennium Development Goals. The meeting also pledged support to Governments to maintain counter-cyclical social spending to protect the progress achieved in recent years in poverty reduction.

2. Regional coordination mechanisms and regional directors' teams: evolving complementarities in support of country work

79. In 2008, the regional commissions sponsored an independent study entitled "UN coherence at the regional level: synergies and complementarities between the

regional coordination mechanism and regional directors' team".[21] The study was sponsored by the regional commissions as a contribution to the ongoing discussion and reflection within the United Nations system on improving coherence and programme delivery by the United Nations system at the regional level. It advocated better synergies and complementarities between the two main inter-agency mechanisms working at that level, namely the Economic and Social Council-mandated regional coordination mechanism convened by the regional commissions, on one hand, and the regional directors' teams acting within the United Nations Development Group machinery, on the other hand.[22] In this context, the study called for clearer complementarities through an improved focus by the regional coordination mechanism on the policy, normative-support and analytical work at the regional and subregional levels, including through a thematic focus and linkage to and integration into country-level development work, while regional directors' teams would continue their operational focus of providing coherent and timely support to United Nations country teams.

80. As the functions of the regional directors' teams have been clarified between the Executive Secretaries of the regional commissions and the Chair of the United Nations Development Group and within the United Nations Development Group machinery,[23] the relationship between Regional Coordination Mechanisms and regional directors' teams has been evolving in most regions with a view to further complementarities and linkages between the inter-agency policy and programming resources available within the mechanism and the operational focus and functions of regional directors' teams in support of country-level work. For example, 15 directors of regional United Nations programmes are now members of both the Regional Coordination Mechanism and regional directors' team in the Asia-Pacific region. This has facilitated joint planning of meetings based on a clear division of labour, and the holding of back-to-back meetings of both processes. With a focus on country-level programmes, the regional directors' team in the Asia-Pacific region now captures the regional perspective of specialized agencies and funds, and links more effectively to the normative and analytical role of ESCAP. The Commission also participates fully in the regional directors' team processes that support the rollout of UNDAF in the region, including an active role in supporting country teams in UNDAF preparation.

81. ECLAC has been a member of the regional directors' team in Latin America and the Caribbean for some time and continues its coordination with the team as the convenor of the regional coordination mechanism in the region, including by holding their meetings back to back, as appropriate. ECA is initiating an active engagement in regional directors' teams in Africa, including through its subregional

[21] See www.un.org/regionalcommissions, regional commissions and United Nations system-wide coherence.

[22] Regional directors' teams is the second mechanism for regional coordination established in 2003, currently composed of regional directors and relevant senior managers with direct supervisory responsibilities for agency engagement at the country level.

[23] The regional directors' teams have been tasked with providing coherent technical support to regional commissions and United Nations country teams; performance management of regional commissions and United Nations country teams; and quality assurance of UNDAFs/United Nations programmes. See the discussion note by the United Nations Secretariat dated 15 April 2009 entitled "Strengthening governance of operational activities for development of the United Nations system for enhanced system-wide coherence" (para. 32) and also the CEB 2008 fall session report (CEB/2008/2).

offices. In the Arab region, ESCWA was invited to join the regional directors' team in March 2009. However, further coordination is under way to ensure that the roles of the two coordination forums in the region are complementary.

3. The regional coordination mechanism and the CEB High-Level Committee on Programmes: enhancing policy coherence and linkage between the global and regional levels

82. Based on an issues paper presented by the regional commissions,[24] the issue of the coherence at the regional level and the regional dimension of the work of the High-Level Committee on Programmes was further addressed in depth at the seventeenth session of the High-Level Committee on Programmes, held on 26 and 27 February 2009. Recognizing the importance and value added of the regional dimension to its work, the Committee decided to invite the regional commissions, as convenors of the regional coordination mechanism, to bring to the deliberations of the regional coordination mechanism those global issues that the Committee may wish to pursue at the regional level, bearing in mind the regional priorities and the regional coordination mechanism roles and functional mechanisms. The Committee also decided to invite the regional commissions, as convenors of the regional coordination mechanism, to bring to the deliberations of the High-Level Committee on Programmes any emerging interregional issues that merited consideration at the global level. This decision would further the linkage between the global and regional levels allowing the work of the Committee on certain global issues with important regional dimensions to be addressed in a coherent manner at the regional level through the Regional Coordination Mechanism. CEB endorsed this decision at its first 2009 regular session, held in Paris, on 4 and 5 April 2009.

C. Enhanced interregional cooperation among the regional commissions

83. Since the last reporting period, the Executive Secretaries held three regular meetings in New York to further coordination and collaboration among the Commissions, in July and October 2008 and in February 2009. On their agenda were many of the major policy issues addressed in the report, notably the Regional Commissions' coordinated actions and efforts to support United Nations system-wide coherence at the regional and global levels, as well as the substantive contributions and regional perspectives by the regional commissions to the global challenges of climate change, food and energy security, and the ongoing economic and financial crisis. These issues have been addressed as part of the Executive Secretaries dialogues with the Economic and Social Council and the Second Committee of the General Assembly, in July and October 2008, respectively. Two side-events were organized at the margins of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, held in Doha, from 29 November to 2 December 2008, in which the regional commissions discussed the issues of financing for development and the economics of gender and the role of regional cooperation and global

[24] See the report of the regional commissions entitled: "Coherence at the regional level: the regional dimensions of HLCP work" (CEB/2009/HLCP-XVII/CRP.2), available from www.un.org/regionalcommissions.

partnership in financing for development. In addition, during the sixty-fifth session of ESCAP, in Bangkok, in April 2009, three of the Executive Secretaries (of ECA, ECE and ESCAP) participated in a high-level panel on the economic crisis.

84. With the objective of increasing mutual in-depth knowledge and identifying measures for more effective interregional cooperation, the Executive Secretaries and selected senior staff from the regional commissions held their first retreat at the United Nations System Staff College in Turin, Italy, in September 2008. The participants at the retreat identified several focus areas for the regional commissions to foster their interregional cooperation and exchange of best practices. Among the focus areas were: statistics, including statistical alignment with the Millennium Development Goals and international standards; energy security and efficiency; transport infrastructure, border crossing and facilitation; aid for trade; disaster risk reduction; and social policy.

85. In addition, the annual meetings of the Chiefs of Programme Planning continue to enhance harmonization among the commissions in different areas, including: the introduction of a unified message on the regional dimension of development in all strategic frameworks for the period 2010-2011; the alignment of the programme planning functions and the harmonization of the programme budget proposals; the sharing of experiences on establishing subregional offices; and the harmonization of the parameters on quality assurance of publications and flagship definition.

United Nations E/2009/15/Add.1

Economic and Social Council

Distr.: General
9 June 2009

Original: English

Substantive session of 2009
Geneva, 6-31 July 2009
Item 10 of the provisional agenda*
Regional cooperation

Regional cooperation in the economic, social and related fields

Report of the Secretary-General

Addendum

Matters calling for action by the Economic and Social Council or brought to its attention

Summary

The present addendum to the report of the Secretary-General on regional cooperation in the economic, social and related fields contains resolutions and decisions adopted at the regular sessions of the regional commissions in the first half of 2009: the Economic Commission for Europe held its sixty-third session in Geneva, from 30 March to 1 April 2009; the Economic and Social Commission for Asia and the Pacific held its sixty-fifth session in Bangkok, from 23 to 29 April 2009; the Economic Commission for Latin America and the Caribbean held its twenty-fifth session of the Committee of the Whole in New York on 9 February 2009 and the Economic Commission for Africa and the African Union convened the second session of the Joint Annual Meetings of the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development and the African Union Conference of Ministers of Economy in Cairo on 6 and 7 June 2009.

* E/2009/100.

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I. Matters calling for action by the Council

A. Economic and Social Commission for Asia and the Pacific

1. At its sixty-fifth session, held in Bangkok from 23 to 29 April 2009, the Economic and Social Commission for Asia and the Pacific (ESCAP) approved the following draft decision for adoption by the Council:

Venue of the sixty-sixth session of the Economic and Social Commission of Asia and the Pacific

The Economic and Social Council,

Considering the recommendation of the Economic and Social Commission for Asia and the Pacific to accept the invitation of the Government of the Republic of Korea to host the sixty-sixth session of the Commission,

1. *Expresses its gratitude* to the Government of the Republic of Korea for its generous offer to host the sixty-sixth session of the Economic and Social Commission for Asia and the Pacific;

2. *Approves* the holding of the sixty-sixth session of the Commission in Incheon, Republic of Korea, in 2010.

II. Matters brought to the attention of the Council

A. Economic Commission for Europe

2. At its sixty-third session, held in Geneva from 30 March to 1 April 2009, the Economic Commission for Europe (ECE) adopted decision A (63), which is hereunder brought to the attention of the Council.

The work of the Economic Commission for Europe

3. The decision, inter alia, recommitted the renewed support of ECE member States to the work of ECE and confirmed that ECE facilitates greater economic integration and cooperation among its 56 member States and promotes sustainable development.

4. The decision also expressed appreciation for the ability of ECE to adjust its activities to the geopolitical development and economic changes in the region and to respond to the evolving needs of its member States, thereby contributing to the stability within the region. It encouraged ECE to continue to exercise its catalytic role by bringing the sustainable development goals agreed by the international community down to the regional level and supporting their implementation. At the same time, it encouraged ECE to continue to share best practices beyond its region, as appropriate.

5. Recognizing that the region includes 18 countries eligible for official development assistance, the decision also reaffirmed the strategic directions adopted by the ECE reform, with due account taken of the specific needs of countries with economies in transition.

B. Economic and Social Commission for Asia and the Pacific

6. At its sixty-fifth session, held in Bangkok from 23 to 29 April 2009, the Economic and Social Commission for Asia and the Pacific (ESCAP) adopted six resolutions and one decision, which are hereunder brought to the attention of the Council.

Implementation of the Bali Outcome Document in addressing the food, fuel and financial crises

7. The Economic and Social Commission for Asia and the Pacific invited the countries of the region and international and regional organizations to urgently consider the implementation, as appropriate, of the recommendations contained in the Bali Outcome Document;[1] requested the Executive Secretary to continue to assist, in coordination with other international entities, particularly the least developed countries, landlocked developing countries and small island developing States, in implementing the recommendations contained in the Bali Outcome Document and in building their capacity to make appropriate policy responses that mitigate the impact of the economic crisis, restore growth and avoid future global shocks; to conduct analytical studies and share experiences on improving food and energy security, on responding to the financial crisis, and on sustainable agriculture, including its climate adaptation and mitigation potentials; to convene, in coordination with international and regional organizations, including financial institutions concerned closely with the region, a regional dialogue with participation by government representatives and other experts, to discuss the progress so far achieved in the Asian and Pacific region in addressing the economic crisis and its impact on the achievement of the internationally agreed development goals, including the Millennium Development Goals by 2015 and to report on the outcome for consideration by the Commission at its sixty-sixth session; and to submit to the Commission at its sixty-sixth session a report on the progress made in the implementation of the present resolution.

Regional technical cooperation and capacity-building in statistics development in Asia and the Pacific

8. The Economic and Social Commission for Asia and the Pacific took note of the report of the Committee on Statistics on its first session[2] and of the report of the Statistical Institute for Asia and the Pacific;[3] requested the Executive Secretary to continue to assist members and, as appropriate, associate members in strengthening their statistical capacity, in accordance with Commission resolution 62/10; took note of the appreciation of members and associate members for technical cooperation and capacity-building activities in statistics development in Asia and the Pacific carried out by the secretariat and the training services delivered by the Statistics Division and the Statistical Institute for Asia and the Pacific in promoting national statistical capacity-building in the region; expressed appreciation to the members and associate members that have provided financial support to the Statistical Institute for Asia and the Pacific; encouraged members and associate members to implement paragraph 20 of the annex to Commission resolution 61/2 and, where appropriate, to

[1] E/ESCAP/65/15/Add.1.
[2] E/ESCAP/65/13.
[3] E/ESCAP/65/26.

increase financial support to the Statistical Institute for Asia and the Pacific; noted that the Statistical Institute for Asia and the Pacific will celebrate its fortieth anniversary in 2010 and encouraged members and associate members to contribute to the preparations for this celebration; and requested the Executive Secretary to report on the implementation of the present resolution to the Commission at its sixty-seventh session.

High-level Intergovernmental Meeting on the Final Review of the Implementation of the Asian and Pacific Decade of Disabled Persons, 2003-2012

9. The Economic and Social Commission for Asia and the Pacific decided that the venue of the high-level intergovernmental meeting on the final review of the implementation of the Asian and Pacific Decade of Disabled Persons, 2003-2012, should be decided by the Commission at its sixty-sixth session; welcomed the offer of the Republic of Korea to host the high-level intergovernmental meeting on the final review of the implementation of the Asian and Pacific Decade of Disabled Persons, 2003-2012, in conjunction with the General Assembly of the Asia and Pacific Disability Forum and the World Congress of Rehabilitation International; called upon other members and associate members that might wish to host the high-level intergovernmental meeting to present their offers as soon as possible and no later than October 2009; and requested the Executive Secretary to examine all offers to host the high-level intergovernmental meeting on the final review of the implementation of the Second Decade, and to report the results of the examining process to the Commission at its sixty-sixth session.

Strengthening of the Centre for Alleviation of Poverty through Secondary Crops Development in Asia and the Pacific

10. The Economic and Social Commission for Asia and the Pacific endorsed the recommendation of the Governing Council, within the existing statute[4] of the Centre, to turn the Centre into a coordinating research institute and a regional, member-driven centre of excellence that focuses on poverty alleviation through secondary crops development, with special attention to addressing food security, hunger and malnutrition;[5] decided that the new position and focus of the Centre should take into account the following aspects: the membership of the Technical Committee should include heads of national agricultural research centres of member countries, and the research carried out by the Centre should be focused on sustainable secondary crop farming systems and agribusiness development in the context of inclusive agricultural and rural development for food security and poverty alleviation; endorsed the conclusions of the Governing Council at its fifth session that the Centre's primary focus is on networking with national agricultural research centres in the region and beyond, promoting and coordinating research, highlighting and disseminating their research findings and converting the results of primary research into relevant policy options for the region;[6] adopted the recommendation of the Governing Council to allow for a larger Council than the current eight members plus the host country in order to enhance the sense of

[4] Commission resolution 60/5 of 28 April 2004, annex.

[5] See E/ESCAP/65/25, para. 1.

[6] Ibid., para. 3.

ownership of the Centre by the States members of ESCAP,[7] and decided, in this regard, to adopt the revised statute of the Centre; agreed, in this regard, that all nine members submitting nominations for membership in the Governing Council of the Centre during the sixty-fifth session of the Commission, in addition to the host country, Indonesia, namely, Bangladesh, Cambodia, France, India, the Islamic Republic of Iran, Malaysia, Pakistan, the Republic of Korea and Thailand, should become members of the Council for the period 2009-2012; urged the members of the Commission to increase their regular voluntary contributions to the Centre and to contribute professional staff working in the areas of poverty alleviation through secondary crops development to the Centre; urged the Executive Secretary to provide financial and human resources to the Centre and to mobilize additional voluntary resources to enhance its capacity to fulfil its mandate; and requested the Executive Secretary to report on the implementation of the present resolution to the Commission at its sixty-sixth session.

Review of the operational details of the feasibility study for the establishment of an Asian and Pacific centre for information, communication and space technology-enabled disaster management in the Islamic Republic of Iran

11. The Economic and Social Commission for Asia and the Pacific recalled its resolution 64/10 of 30 April 2008, in which it invited the Islamic Republic of Iran to review the operational details of its proposal to establish an Asian and Pacific centre for information, communication and space technology-enabled disaster management, in order to clarify the implications, if any, of such changes on the scope, functions and value-added products and services to be offered, along with timelines for scheduling the introduction of those activities, and to submit them to the Commission at its sixty-fifth session; noted with appreciation the generous offer of the Government of the Islamic Republic of Iran to host the proposed centre, and welcomed the progress reported in conducting the review requested in paragraph 1 of resolution 64/10; noted also that the Government of the Islamic Republic of Iran has requested additional time in order to provide the Commission with the supplementary information requested in paragraph 1 of resolution 64/10; and invited the Government of the Islamic Republic of Iran to revise its draft resolution to take into account the outcome of the above-mentioned review and submit the revised version to the Commission for consideration at its sixty-sixth session.

Support for the establishment of an international think tank of landlocked developing countries

12. The Economic and Social Commission for Asia and the Pacific expressed its support for the proposal by the Government of Mongolia to set up in Ulaanbaatar an international think tank to enhance the analytical capability of landlocked developing countries needed to maximize the efficiency of coordinated efforts for the effective implementation of the internationally agreed provisions, particularly the Almaty Programme of Action and the Millennium Development Goals; invited Governments, donor countries, relevant United Nations bodies, agencies, international and regional financial institutions and organizations, as well as the private sector and academic institutions, to support the landlocked developing countries in realizing the establishment of the proposed international think tank;

[7] Ibid., para. 2.

requested the Executive Secretary to provide the necessary advisory and technical support, in collaboration with regional and global stakeholders, with regard to preparations for the setting up of the proposed think tank; and called upon the Executive Secretary to designate the relevant unit of the secretariat as the Commission's focal point to assist in the coordination of regional efforts and the provision, upon request of governments, of advisory and technical services to help materialize the proposal.

Dates and theme topic for the sixty-sixth session of the Commission

13. The Economic and Social Commission for Asia and the Pacific decided that its sixty-sixth session would be held in April or May 2010. The actual dates would be decided in consultation with the Advisory Committee of Permanent Representatives and Other Representatives Designated by Members of the Commission. The theme topic for the sixty-sixth session of the Commission shall be "Addressing challenges in the achievement of the Millennium Development Goals: promoting a stable and supportive financial system; and green growth, or environmentally sustainable economic growth, including through technology and financing".

C. Economic Commission for Latin America and the Caribbean

14. At its twenty-fifth session, held on 9 February 2009 in New York, the Committee of the Whole of the Economic Commission for Latin America and the Caribbean adopted resolution 646(PLEN.25), which requested the Commission to collaborate actively with the countries in shaping a common regional position for presentation at the conference at the highest level on the world financial and economic crisis and its impact on development, to be held in the framework of the General Assembly during the first half of 2009 and in the regional dialogues, to contribute from the regional perspective to the discussions on building a new international financial architecture. The resolution also requested that the Commission, as part of the preparatory work for the fifteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change and the fifth session of the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol, provide support to the countries of Latin America and the Caribbean in organizing a regional preparatory meeting which will enable them to exchange views concerning a framework for a post-2012 climate change agreement.

D. Economic Commission for Africa

15. At the second session of the Joint Annual Meetings of the Economic Commission for Africa (ECA) Conference of African Ministers of Finance, Planning and Economic Development and the African Union Conference of Ministers of Economy, held in Cairo on 6 and 7 June 2009, the Commission approved a ministerial statement and several resolutions, which are hereunder brought to the attention of the Council.

Summary of the ministerial statement, 7 June 2009, Cairo

16. The African Ministers of Finance, Planning and Economic Development recalled that at the first Joint Annual Meeting, held in Addis Ababa in March 2008, they reiterated their commitment to make employment creation a central feature of their economic and social policies, take measures to mitigate the effects of volatile food and energy prices, deepen governance reforms, provide legal empowerment for the poor, enhance resource mobilization, scale up efforts to promote regional integration, deal with the challenges presented by climate change, and strengthen efforts to meet the Millennium Development Goals.

17. The Ministers recognized that the global financial and economic crisis had changed the international environment in which they design and implement policies. The drying up of key sources of development finance had exposed their vulnerability to external finance and rekindled interest in scaling up efforts to enhance domestic resource mobilization as a sustainable mechanism for financing development in the long run. In this regard, they said that the theme of this year's conference, "Enhancing the effectiveness of fiscal policy for domestic resource mobilization", was quite appropriate.

Financial and economic crisis

18. The Ministers recognized that, although the financial crisis had been triggered by events in the advanced countries, its effects were already being felt in Africa. Recent projections indicated that in 2009 the crisis would reduce growth in the region by 2 to 4 percentage points, with dire consequences with regard to the ability to reduce poverty and meet the Millennium Development Goals by the 2015 target date. Consequently, they said, bold and swift actions were needed to cushion the impact of the crisis on their economies and protect vulnerable groups.

19. The Ministers recalled the outcome of the meeting of African Ministers of Finance and Planning and Governors of Central Banks held in Tunis on 12 November 2008, and recalled further the communiqué issued by the Committee of 10 Ministers of Finance and Planning and Governors of Central Banks at their meeting held on 16 January 2009 in Cape Town, South Africa. They reaffirmed the commitments made in Tunis to deepen economic reforms, strengthen the regulation of financial institutions, harmonize fiscal and monetary policies, improve governance and accountability, diversify the export structure, make more judicious use of public revenue, and improve debt management.

20. The Ministers acknowledged that several countries in the region lacked the ability and flexibility to conduct the counter-cyclical policies needed to mitigate the impact of the crisis on their economies, and urged regional and multilateral development finance institutions to increase their financial support to African countries while alleviating the attendant conditionalities so as to enable them to finance economic and social programmes and ensure that the financial crisis does not become a humanitarian disaster. The Ministers also urged donors to meet their existing commitments to the region.

21. The Ministers were convinced that a global crisis required a global and coordinated response that reflects differences in national abilities and ensures proper representation of all countries. In this regard, they said, efforts should be made to increase Africa's voice and participation in international financial institutions as

well as other forums on reform of the global financial architecture. The Ministers welcomed the decision by the General Assembly to organize a global conference on the financial crisis and urged African countries to participate actively.

22. The Ministers welcomed the fact that the Group of 20 invited Africa to its London Summit and urged the Group to give the region another permanent seat to ensure that its interests and concerns relating to global economic issues and institutions are heard and taken into account. They took note of the outcome of the Summit and requested that efforts be made by the Group of 20 and the Group of Eight to ensure that a significant percentage of the resources pledged is allocated to the African region. Furthermore, they said that there was a need for a temporary moratorium on debt payments by their countries to free resources for development.

Domestic resource mobilization

23. The Ministers acknowledged the existence of a wide gap between domestic savings and investment requirements in the region as well as the need to close that financing gap in order to increase the prospects of meeting the Millennium Development Goals. They recognized the crucial role of domestic resource mobilization in laying a solid foundation for sustained growth and development. They also recognized that external finance can complement domestic resources and help to create an environment conducive to the mobilization of resources for development, and they further recognized the need to stem capital flight.

24. Success in the mobilization of domestic resources requires public-sector interventions designed to boost growth, increase public revenue and encourage savings by the private sector. They recognized that sustained economic growth was a necessary condition for increasing domestic revenue mobilization. However, growth will increase domestic revenue only if it is accompanied by structural change, improved fiscal policies and better tax administration.

25. The Ministers encouraged their Governments to critically assess the benefits and costs of using tax incentives to promote foreign investment and also urged them to adopt a more cautious approach to multilateral trade liberalization to ensure that it does not erode the fiscal base, thereby jeopardizing the achievement of key national development goals.

26. Good governance at the national and international levels is needed for success in domestic resource mobilization. The Ministers called on their Governments to deepen governance reforms, protect property rights and enforce the rule of law. They also called on their development partners to take appropriate actions to reduce tax evasion and to make it easier for migrants to transfer money by reducing the cost of remittances transactions.

27. The Ministers committed to strengthening the functioning of domestic financial systems so that they can contribute more effectively to financial intermediation and cater to the long-term financing needs of investors. Efforts should also be made to exploit the potential of microfinance institutions in the mobilization of savings. They said that in this regard, there was a need to link formal and informal financial institutions with a view to improving their effectiveness and impact.

28. The Ministers noted that in the majority of their countries, official development assistance had played and would continue to play, a major role in

development financing in the short to medium term. However, more efforts were needed on the part of their Governments to enhance domestic resource mobilization and reduce reliance on aid in the long run. They said that it was well known that domestic finance was a more stable and sustainable source of development financing than official development assistance. On the other hand, it was critical that donors fulfil their commitments to Africa with respect to scaling up aid and its effectiveness, as reflected in the Monterrey Consensus, the Africa Action Plan of the Group of Eight, the outcome of the Gleneagles Summit and in the Paris Declaration.

29. The Ministers were concerned about recent evidence indicating that a large percentage of official development assistance flows to Africa finances capital outflows in the form of debt payments and called on their Governments and development partners to find innovative ways in which such assistance could be used more effectively to support national development priorities. In this regard, they said that there was a need to direct more official development assistance towards building capacity for domestic resource mobilization in the region.

Regional integration

30. While acknowledging the recent progress made towards regional integration in their region, such as the decision of the Heads of State or Government of the Common Market for Eastern and Southern Africa, the Southern African Development Community and the East African Community to establish a free trade area, the Ministers remained concerned that overall progress in regional integration and intra-Africa trade remains limited. They reaffirmed their commitments to advancing regional integration in the context of the African Union Commission Minimum Integration Programme, adopted by the Fourth Conference of African Ministers in Charge of Integration. The Ministers also committed themselves to addressing the challenges that the regional economic communities face in their efforts to advance regional integration and intra-Africa trade, including lack of macroeconomic policy convergence, inadequate policy commitments and the implementation of protocols by member States. Furthermore, they committed themselves to intensifying efforts to promote infrastructure and institutions that support regional integration, including efforts to establish a continental integration fund for financing the Minimum Integration Programme.

Millennium Development Goals

31. The Ministers commended the report of the secretariat on progress in Africa towards the Millennium Development Goals and applauded the efforts that their countries are making towards attaining those goals, while acknowledging that the current global economic and financial crisis could fetter efforts and erode the progress already made. To sustain progress and attenuate the adverse impact of the current global economic and financial crisis, and to sustain efforts to achieve the Millennium Development Goals, they would consider the feasibility of adopting social safety nets and other social protection measures and, in doing so, maintain and continue to pursue policies that are consistent with macroeconomic stability and growth.

32. Recalling that in the 2005 World Summit Outcome and in the midterm review of progress towards the Millennium Development Goals, it was resolved that countries with extreme poverty should adopt and begin to implement the

Millennium Development Goals consistent with their national development plans, the Ministers committed to strengthening their planning systems and to diligently implementing national development plans. In this context, they recognized the contribution that subnational jurisdictions can make in efforts to achieve the Millennium Development Goals and resolved to cascade and devolve Goal-based planning to such lower tiers of government.

33. The Ministers said that knowledge-sharing, peer-learning and experience-sharing were critical for innovations in policymaking but were underutilized. The Ministers therefore called on the African Union Commission and the Economic Commission for Africa to promote knowledge-sharing and peer learning on the Millennium Development Goals among their countries, including through the African Learning Group on the Poverty Reduction Strategies and the Millennium Development Goals.

Climate change

34. Although Africa is not a major contributor to global warming, it is the region most likely to be significantly affected by climate change. The Ministers called on industrialized countries to provide financial and technical assistance to their countries to enable them to respond to the challenges presented by climate change.

35. The Ministers took note of the outcome of the Third African Ministerial Conference on Financing for Development, held in Kigali on 21 and 22 May 2009, on the theme "Climate change: financing opportunities and challenges to achieve the Millennium Development Goals in Africa", and requested the African Union Commission and the Economic Commission for Africa (ECA) to strengthen the capacity of their countries in negotiating climate change agreements and in accessing existing financial resources for mitigating and adapting to climate change.

Charter on Statistics

36. Effective policy formulation and implementation as well as the tracking of the performance of economies require timely access to and availability of statistical data. The Ministers were concerned about the poor state of statistical development in their countries and urged AUC, ECA, the African Development Bank, the African Capacity Building Foundation, the regional economic communities and member States to establish a mechanism for monitoring the implementation of the African Charter on Statistics.

International trade

37. The Ministers viewed with concern the substantial drop in world trade and in African exports resulting from the financial crisis, and took note of the measures taken by the Group of 20 to mobilize additional resources for trade financing. They called upon developed countries to avoid protectionism, which would exacerbate the adverse effects of the crisis on their economies. They said that there was also a need to conclude the Doha development round with appropriate provisions so as to take into account Africa's interests and concerns. They called upon all stakeholders to show strong support for the implementation of the Aid for Trade initiative and looked forward to the forthcoming global review meeting on the initiative.

African Investment Bank

38. The Ministers noted with satisfaction that after the adoption of the Protocol on the African Investment Bank by the African Union in February 2009, they reached at the Meeting an agreement on the draft statute of the Bank, which is one of the three financial institutions stipulated in the Constitutive Act of the African Union. They recognized the need to fast-track the establishment of the Bank and urged member States to sign and ratify as quickly as possible the Protocol relating to its creation.

Least developed countries

39. The Ministers recognized that least developed countries faced challenges that require special attention and welcomed the decision of the General Assembly to convene the Fourth United Nations Conference on the Least Developed Countries in 2011. They called on ECA, in collaboration with the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, to organize an African regional review meeting prior to the Fourth Conference on least developed countries, as called for by the General Assembly in its resolution 63/227.

Financing domestic resource mobilization

40. The Conference of Ministers reaffirmed the importance of good governance at the national and international levels in the successful mobilization of domestic resources and called on African countries to deepen governance reforms, increase transparency in the use of public funds and strengthen efforts to improve the management of natural resources; called upon African Governments to enhance domestic revenue mobilization by broadening the tax base, improving tax administration, increasing accountability, addressing tax evasion, fraud and avoidance, as well as efficiency in the use of public resources; encouraged African Governments to provide more support for private-sector development as a viable strategy to increase private investment, boost growth and lay a solid foundation for effective domestic resource mobilization; appealed to donors to reinforce Africa's resource mobilization efforts by taking appropriate actions to stem capital flight, reduce the cost of sending remittances, provide technical assistance to strengthen public financial management systems, and direct more official development assistance towards building national capacities for domestic resource mobilization; requested African countries to be more selective in the use of tax incentives as well as exemptions for promoting foreign investment and to adopt a gradual approach to multilateral trade liberalization to ensure that trade reforms do not erode the fiscal base and jeopardize the achievement of national development goals; urged African Governments to make more efforts to boost private savings through building and strengthening domestic financial systems, maintaining political and macroeconomic stability, and exploiting the potential of microfinance institutions for the mobilization of savings in the informal sector; stressed the need for financial market development to increase liquidity through the pooling of savings, reduce transaction costs, enhance financial intermediation and promote growth and development; stressed the need for the structural transformation of African economies through the modernization of agriculture and value-chain development and the facilitation of industrial growth and manufacturing to promote sustained growth; and called upon African Governments to enhance budget formulation and use it as an effective instrument for economic policy management.

Implementation of the African Charter on Statistics

41. The Conference of Ministers requested the African Union Commission to work closely with ECA, the African Development Bank, the African Capacity Building Foundation, the regional economic communities and member States to establish a mechanism for coordinating and implementing the African Charter on Statistics; and further requested the African Union Commission to finalize, in cooperation with ECA, the African Development Bank, the African Capacity Building Foundation, the regional economic communities and member States, the comprehensive technical study on practical approaches to the mobilization of the financial resources necessary for the speedy creation of a fund, in particular by identifying potential sources of funding, as well as the study relating to a strategy for harmonizing statistics.

Congress of African Economists on subregional and regional integration

42. The Conference of Ministers took note of the outcomes (reports, press releases and statements on the global economic and financial crisis) of the First Congress of African Economists on subregional and regional integration held in Nairobi from 2 to 5 March 2009; recommended that the African Union Commission organize, on a regular basis, the Congress of African Economists on subregional and regional integration in order to enable African economists to contribute further, through their ideas, to the African integration process, and to the resolution of major issues of economic importance to Africa; and requested the Commission to organize, in cooperation with the regional economic communities, the Association of African Universities and African universities and research institutions, a meeting of the Congress in 2010 and to submit the conclusions of that meeting to the next Conference.

Proposed programme of work and priorities for the biennium 2010-2011

43. The Conference of Ministers endorsed the proposed work programme and priorities for the biennium 2010-2011, as activities proposed for the programme are demand-driven, and ECA will continue to build on its existing partnerships with the African Union Commission, the African Development Bank and the regional economic communities.

Statutes of the proposed African Investment Bank

44. The Conference of Ministers recommended that the draft statutes of the African Investment Bank should be submitted to the June 2009 Summit of the African Union for consideration and adoption; mandated the African Union Commission to draft, in consultation with experts from member States, and submit, before the end of October 2009, the annexes to the statutes of the Bank to a meeting of legal and financial experts prior to submitting them for consideration to the extraordinary meeting of the Conference of African Ministers of Economy and Finance, to be held in November 2009, and subsequently to the January/February 2010 Assembly of the African Union for adoption; and urged States members of the Union to sign and ratify, as speedily as possible, the Protocol relating to the creation of the African Investment Bank, so that the institution can begin operations at the earliest opportunity.

Repositioning of the African Institute for Economic Development and Planning

45. The Conference of Ministers congratulated the new Director of the African Institute for Economic Development and Planning (IDEP) on his appointment and extended its support and cooperation to him; endorsed the broad vision and strategic orientation for the renewal of the Institute that the Director presented; encouraged the IDEP leadership to continue the consultative process for the speedy completion of the repositioning of the Institute, including innovative methods of financing and programming for the long term; expressed its appreciation for the financial contributions received from some member States, and requested those that had not paid their contributions to do so; and requested the Director of IDEP, in close collaboration with the Governing Council of the Institute, to report on the new strategic orientation and priorities, as well as on the status of implementation of the IDEP repositioning exercise to the next session of the Conference.

Global financial and economic crisis

46. The Conference of Ministers welcomed the fact that the Group of 20 had invited Africa to the London Summit and requested continued African representation in future meetings of the Group, as well as an adequate voice for and representation of the region in all global economic forums on reform of the international financial architecture and in development finance institutions, such as the World Bank and the International Monetary Fund (IMF), that make decisions affecting the lives of its people; welcomed also the proposal of the President of the General Assembly to organize a high-level meeting on the global financial and economic crisis from 24 to 26 June 2009, and requested African countries to participate at the appropriate level; urged advanced countries to intensify efforts to boost global demand, restore stability in financial markets, strengthen financial system regulation, and unlock credit markets to increase prospects for global recovery, as well as ensure that the financial crisis does not erode the tremendous gains in economic and social performance made by several African countries in recent years; urged the African Union Commission and ECA to explore debt-standstill and debt-restructuring arrangements in consultation with the World Bank, IMF and developed countries; called upon donors to fulfil their commitments to Africa on scaling up aid and improving aid effectiveness, as reflected in the Monterrey Consensus, the Group of Eight Africa Action Plan, the outcome of the Gleneagles Summit, the Paris Declaration and the Accra Agenda for Action; and encouraged African countries to take appropriate action to cushion the impact of the crisis on vulnerable groups and prevent the financial crisis from becoming a humanitarian crisis in the region. They said that in this regard, efforts should be made to support social protection programmes as well as increase investment in infrastructure, health and education, which are critical to success in diversifying the production and export structure in African economies. They also requested multilateral and regional development-finance institutions to increase the quantity of, as well as access to, unconditional financing for Africa, support counter-cyclical domestic policies and respond more flexibly to the needs of African countries so as to allow them to weather the global slowdown; urged African Governments to deepen economic reforms and to refrain from imposing new restrictions on trade and investment in response to the crisis, to avoid reversing the progress made in economic management and governance, which has contributed significantly to the recent improvement in macroeconomic performance in the region; and encouraged African Governments to remove all

obstacles to intra-African trade, harmonize trade policies and regulations and fast-track regional integration in order to reduce susceptibility to external shocks and lay a solid foundation for sustained economic growth.

Millennium Development Goals

47. The Conference of Ministers requested ECA and the African Union Commission to promote peer learning and experience-sharing on the Millennium Development Goals, including through the African Learning Group on Poverty Reduction Strategies and the Millennium Development Goals; mandated the Commission, ECA and the African Development Bank to help Africa to prepare for the 2010 United Nations system-wide midterm review of progress towards the Millennium Development Goals; requested the three institutions to undertake regional consultative meetings to review progress towards the Goals and urged their countries to support that exercise; and called upon development partners to fulfil their official development assistance commitments, as reaffirmed during the Summit of the Group of 20, held in London, to ensure the attainment of the Millennium Development Goals.

United Nations E/2009/16

Economic and Social Council

Distr.: General
8 May 2009

Original: English

Substantive session of 2009
Geneva, 6-31 July 2009
Item 10 of the provisional agenda*
Regional cooperation

The economic situation in 2008-2009 in the Economic Commission for Europe region: Europe, North America and the Commonwealth of Independent States

Summary

In 2008, the Economic Commission for Europe region entered into what has been forecasted to be the worst economic downturn since the second world war. Each of the subregions covered by the Commission is either experiencing or expecting to experience negative growth in 2009. The decline in growth has been accompanied by rising unemployment and by especially large declines in international trade and capital flows. Government fiscal positions have deteriorated significantly. The global slowdown and the wide recession being experienced throughout the Commission region resulted from a financial crisis which began in the United States of America but which quickly spread to Western Europe and then to the periphery regions of the Commission area, as well as the rest of the world. In fact, the declines in economic growth in the emerging economies in the Commission area are likely to be greater than in the advanced economies where the crisis originated. The crisis is noteworthy not only because of its severity, but also because of its global synchronization.

As a result of tight economic integration and interconnected financial markets, the potential for adverse contagion in the emerging economies of Europe is considered to be quite high. Although relatively small, there remains a not insignificant possibility that there could still be a systemic financial meltdown throughout the European emerging markets, which would have significant and long-lasting global implications. In addition, if the consequences of the crisis are not properly addressed, social and political instability could arise in some of the emerging economies of the Economic Commission for Europe region.

* E/2009/100.

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I. Overview of the economic situation in the Economic Commission for Europe region

1. Annual real growth in the Economic Commission for Europe region in the three years prior to the beginning of the world economic and financial crisis (2005-2007) averaged 3.2 per cent, but this fell to half of that (1.5 per cent) in 2008 and is forecast to fall to minus 3.5 per cent in 2009, before recovering slightly to about 0.5 per cent in 2010. Prior to the crisis, the growth pattern in the region had followed global trends, with the European emerging economies growing two to three times faster than the advanced economies in North America and Western Europe. To a significant degree, this growth was due to large capital inflows, which allowed the emerging economies to maintain investment at higher rates than would have been possible from relying solely on domestic savings. This dependence on external finance, however, has proved to be a major disadvantage during the current downturn, as it provided an entrance for the crisis.

2. The Economic Commission for Europe region, which is composed of 56 States, is a very diverse area with advanced and emerging economies and a few rather poor developing countries. The nature of the crisis in terms of how it entered these different economies and what impact it had on them varies considerably, and the policy options available to these countries also vary considerably owing to their different economic circumstances and institutional constraints. In 2009, growth in each of the Commission's subregions is forecast to be in the range of minus 3 to minus 5 per cent. Not only is growth forecast to be lower in the European emerging economies, but their declines relative to their recent historical experience will be much larger as well. In addition, the emerging economies have weaker social safety nets than the advanced economies and have a larger percentage of their populations nearer subsistence levels; for these reasons, the economic downturn is much more severe in the European emerging economies than in the advanced economies.

3. In 2009, growth is expected to be minus 5.1 per cent in the Commonwealth of Independent States (CIS), minus 4.6 per cent in South-East Europe, minus 4.2 per cent in the Eurozone, minus 2.7 per cent in North America, and minus 2.4 per cent in the States that are members of the European Union. The economic downturn has been quite severe in the Baltic economies, Iceland and Ireland, where growth is forecast to be close to minus 10 per cent, and somewhat severe in Germany, the Russian Federation and Ukraine. A few of the smaller economies in the region covered by the Commission, such as Albania, Azerbaijan, Cyprus, Tajikistan, Turkmenistan and Uzbekistan, may have positive growth in 2009, which may be relatively solid in the latter two economies. Although a slow recovery is expected to take place in 2010, with positive but slow growth throughout most of the region, there is considerable uncertainty surrounding this forecast and there is a reasonable possibility that growth could still be negative in the European Union.

4. The negative growth being forecast for 2009 in the emerging economies of Europe is an unfortunate setback, because a number of them, especially in South-East Europe and the CIS, had yet to fully recover from the transition process that began in 1989. For example, real gross domestic product (GDP) in 2008 in most of the States created out of former Yugoslavia (except Croatia and Slovenia) and in the energy-poor CIS States was below what it was in 1989, and the Republic of Moldova had a real income of only about half of what it had before the transition. By 2008, the Russian Federation had returned to approximately its 1989 income

level, although some of the energy-rich CIS States, including Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan were significantly above their 1989 levels, as were Armenia and Belarus. Thus, for many of the countries with economies in transition, real income in 2009 will be below what it had been 20 years earlier.

5. At a general level, although the financial and economic shock was smaller in Europe than in the United States, the European policy response was more delayed and considerably weaker and, as a result, their decline in GDP has been as large or even larger than in the United States. For the advanced economies of the Economic Commission for Europe region (North America and Western Europe), this will be their deepest recession since the second world war, although unemployment may not reach the levels of the 1981-1982 downturn. In the emerging economies of Europe, which experienced a "sudden stop" in terms of capital inflows, the magnitude of the shock was large, although of a different nature than in the advanced economies. These emerging economies, however, have been unable to implement counter-cyclical macroeconomic policies and as a result their economic declines have been quite large, generally larger than in the advanced economies. Their downturns, however, will not be as severe as their transitional recessions of the early 1990s. The 2007-2010 global crisis will likely be remembered as the "great recession".

6. Unemployment rates in the United States, Europe, Turkey and the CIS are likely to reach double digits by 2010; in some European economies the situation is much worse. For example by 2010 unemployment may reach 20 per cent in Spain and 17 per cent in Ireland. Labour layoffs seemed to occur much earlier in this economic downturn than in earlier ones.

7. In the advanced economies, the crisis has moderated inflation, which had begun to increase above target levels in early 2008; because it led to a rapid and steep decline in international commodity prices, the economic slowdown brought headline inflation rates in Europe down sharply. Although the advanced economies may experience a short period of deflation during 2009, this is unlikely to persist because of its origin in unrepeated declines in world commodity prices. For emerging Europe, however, the crisis, because it has led to significant currency depreciation, has in some cases increased inflation. Thus, for example, average consumer prices were 14 per cent higher in the CIS countries in January 2009 than a year earlier, and inflation may be over 5 per cent in most of South-East Europe in 2009. The fall in world commodity prices resulted in large declines in the export earnings of the Russian Federation and the energy abundant CIS countries in Central Asia.

8. Trade for the economies in the Economic Commission for Europe region has declined significantly over the past year, generally declining by between one quarter and one half. This has been the result of both the decline in national incomes and consumption and the collapse of trade financing as credit markets seized up. Particularly hard hit has been investment spending and the purchase of durable consumer goods, and as a result trade in manufactures has been especially negatively affected. In February 2009, exports of merchandise from the United States were 22.6 per cent lower than a year before and imports into the United States were 30.4 per cent lower. For the same period, exports of merchandise from the Russian Federation declined by 47.5 per cent and its imports declined by 36.5 per cent. In January 2009, exports from the European Union were down 24.8 per cent

and its imports were down 22.1 per cent from a year earlier. Germany exported almost $1.5 trillion worth of goods in 2008 and remained the world's largest exporter; the United States is in third place, having been overtaken by China.

9. The equity markets in the advanced economies of the Economic Commission for Europe region have lost more than one half of their value since their peaks in 2007, while those in many of the emerging economies have lost three quarters of their value. A large percentage of the equity capital of the banking sector in the United States, Western Europe and the European emerging markets has been wiped out by the crisis. A significant number of the largest well-known banks are insolvent or close to becoming insolvent, although the vast majority of small and medium-sized banks are in a much healthier state. In the spring of 2009, the United States Treasury performed "stress tests" on its large banks to assess their viability. Attempts by Governments to recapitalize the banks have so far been only marginally successful; as a result, the issue of how to recapitalize the banking sectors of these countries remains largely unresolved. Currently, inter-bank markets in the United States and Europe remain dysfunctional and most newly created bank debt requires a Government guarantee to be marketable. The Canadian banking sector largely avoided the problems that plagued United States and European banks, experiencing no bank failures or bailouts.

10. The advanced economies of the Economic Commission for Europe region have responded to the crisis with unprecedented fiscal stimuli and monetary easing. However, it is generally believed that the response has been below what was required, especially in Western Europe. The weak European response is due in large part to inadequately designed institutions for conducting macroeconomic policy. In the long run, however, there are costs in terms of potential inflation and debt repayment that result from the aggressive use of macroeconomic stimulus measures. Only after the crisis is completely over and many of the longer-term complications of debt and inflation have been resolved will it be possible to evaluate fully whether the more aggressive response of the United States was preferable to the more cautious European approach.

11. The fiscal stimulus packages in North America and Europe have consisted of both spending increases and tax cuts. Approximately two thirds of the stimulus measures in the United States for 2009 consisted of additional spending and one third consisted of tax reductions, with approximately one third of the spending for infrastructure projects. In Europe, the stimulus programme in Germany was tilted towards tax cuts, while the plan in France emphasized public projects. Most of the packages allocated some funds for environmental projects consistent with the "green new deal" theme; however, the Economic Commission for Europe region compared unfavourably on this score with what some of the Asian economies (especially the Republic of Korea) proposed.

12. Once the current crisis and recession are over, it will be necessary to unwind any stimulus measures quickly in order to avoid inflation and limit the excessive growth of Government debt. However, this will be a major policy challenge and will probably prove to be very difficult to time properly. Macroeconomic policy was tightened prematurely during the Great Depression in the 1930s, which caused the world to have a relapse into several more years of depression, and the same thing also happened in Japan in the 1990s.

13. Regulatory reform of the financial sectors is expected to take place in the United States and Western Europe; this is primarily a national issue, but there is a strong need for international cooperation and harmonization in implementing such reform. Generally, it is agreed that mortgage approval procedures need to be tightened, banking supervision needs to be strengthened and extended to a wider range of institutions, hedge funds and derivative markets need more oversight, credit rating agencies need to be regulated and bank leverage should be reduced. There is a need to reduce pro-cyclicality in accounting rules (i.e., accounting practices may have to move away from mark-to-market valuation) and in bank lending practices, and central banks will have to take asset prices into account in making monetary policy. Each of these issues is quite technical and the national financial authorities will have to decide how best to achieve these basic objectives.

14. Although the Economic Commission for Europe region is composed of a mix of economies, from some of the richest to some of the poorest in the world, the region is primarily composed of advanced economies that have in general been growing at a significantly slower pace than the world economy overall. As a result, the share of the world economy accounted for by the region's economies has been on a long-run downward trend. The region accounted for 57.5 per cent of real world output in 1999, but that figure has declined to 51.2 per cent in 2009. The reduced share of world output has been roughly similar for North America and the 27 States of the European Union with their respective shares falling from 25.9 per cent and 25.5 per cent in 1999 to 22 per cent and 21.8 per cent in 2009. The share accounted for by the CIS economies has increased from 3.5 per cent in 1999 to 4.6 per cent in 2009.

15. Five countries in the Economic Commission for Europe region (Denmark, Luxembourg, Netherlands, Norway and Sweden) exceeded the United Nations target of 0.7 per cent of GDP in official development assistance (ODA) in 2007. Most of the other Western European economies and Canada provided only about one half of the target, and the United States, which provides the largest amount in absolute terms ($21.8 billion), provided only about a fourth of the target.

16. Energy security remains an import concern for both suppliers and users of energy in Europe. A number of the European Union economies, especially the new member States, are currently dependent on the Russian Federation for a large percentage of their energy needs. There have been several pricing disputes between the Russian Federation and Ukraine on the trans-shipment of gas to the European Union over the past several years that have resulted in the temporary closure of pipelines, creating serious shortages in the European Union.

17. As a result of the effects of globalization, technological change, labour market reforms and less progressive tax structures, income inequality has been increasing in North America and Europe, especially in the economies that follow a more market-oriented model. The growth in the income of the richest 1 per cent or the richest 0.1 per cent has been particularly high (relative to average wage levels) over the past decade. For example, in the United States between 1979 and 2005 the income of the top 1 per cent of the population increased by 238 per cent, over 10 times more than that of the middle 60 per cent of the population, whose income increased by 21 per cent. Inequality increased considerably in the countries with economies in transition during the 1990s, and has recently stabilized in some of those countries but continues to deteriorate in others. Given that globalization and technological

change affect all countries but the increase in inequality has varied extensively between countries, it can be suggested that institutional factors and the policy environment for dealing with these changes are quite important in limiting the rise of inequality.

II. North America

18. The United States entered into recession in the autumn of 2007 and has remained in recession through the spring of 2009. By March 2009, the level of employment in the United States had declined by 5.1 million jobs since its recession began in December 2007; unemployment increased to 13.1 million people out of work, which translates into an unemployment rate of 8.5 per cent, the highest in 25 years. Since approximately half of the job losses have been in the male-dominated construction and manufacturing sectors, the unemployment rate for men was approximately 2 percentage points higher than for women, and it was 5.4 percentage points higher for blacks than for whites. The employment to population ratio in March 2009 was 59.9 per cent, the lowest level since 1985. The number of people receiving unemployment insurance benefits in the United States reached 5.84 million in the spring of 2009, the largest number since record-keeping began in 1967. The number of people on food stamps increased to 32.2 million in January 2009, also the largest in history; and about 20 per cent higher than the previous record, reached in 1994. Despite the negative situation in terms of net loss of jobs, the United States economy exhibits considerable dynamic churning; during February 2009, although 4.8 million workers lost or resigned from their jobs, 4.3 million workers were hired.

19. In February 2009, industrial production in the United States was down 11.8 per cent from a year earlier and manufacturing output was down 14 per cent, while employment in manufacturing had declined by 1.5 million (or 11 per cent) since the recession began. In March 2009, car sales were down 23.5 per cent year on year.

20. The United States macroeconomic policy response in terms of the standard tools of monetary and fiscal policy was unprecedentedly large by historic standards, but was nevertheless insufficient to fully contain the crisis. Interest rates were rapidly reduced to near zero by late 2008 and the monetary policy in the United States was further intensified by the implementation of quantitative easing. However, with dysfunctional capital markets, the effectiveness of the monetary policy was reduced. A fiscal stimulus was implemented in mid-2008 followed by another historically large stimulus package of $787 billion in early 2009, composed of approximately two-thirds spending increases and one-third tax cuts. Policy efforts to restore the functionality of financial markets have been less successful. Initial efforts to remove the toxic assets from the banking sector did not achieve their objective. Stress tests performed by the Government, which found 10 of the largest 19 banks needing more capital ($74.6 billion in all), did help to clarify the financial condition of the banking system, which was a necessary step for re-establishing normality to bank lending. In the first four months of 2009, 32 banks failed in the United States, while 25 had failed during 2008. The United States Government also implemented a number of programmes to help stabilize its housing market and assist mortgage holders experiencing difficulty in making their payments.

21. For the 2009 fiscal year, the federal Government of the United States is projected to have revenues of 15.4 per cent of GDP and spending of 27.7 per cent; these are the lowest and highest percentages of the respective variables in over 50 years. As a result, the deficit of 12.3 per cent ($1.75 trillion) was its largest since the second world war; the deficit for fiscal 2010 is forecast to be approximately 10 per cent. As a result of these deficits, the United States national debt as a percentage of GDP is likely to more than double and reach approximately 100 per cent of GDP in 2012. By 2008 in the United States, household debt as a percentage of national income was the highest that it had been since the 1930s. As the crisis developed, households began retrenching their spending in anticipation of uncertainty and tough times ahead and the ongoing attempts of households to increase their savings has further depressed economic growth.

22. In the United States, housing starts fell 33 per cent to 904,300 from 1.335 million in 2007 and were the lowest since records began. By December 2008, they were 76 per cent below their peak reached in January 2006. There were more than 3 million foreclosures in the United States in 2008 and foreclosures were running at about 300,000 a month in early 2009. In several states (California and Florida) that were most negatively affected, foreclosure sales currently represent almost one half of all home sales. The median price of an existing house fell by minus 15.3 per cent in 2008, the most in any year since records began in 1968. By February 2009, average United States home prices were back to the levels reached in the third quarter of 2003. From the peak in July 2006, the S&P/Case-Shiller Home Price Indices for house prices in 20 cities was down 30.7 per cent, and the 10-city composite index was down 31.6 per cent. United States mortgage rates, however, were near all-time lows by the spring of 2009.

23. The widely followed United States Dow Jones Industrial Average index fell by 33.8 per cent in 2008, which was the largest calendar year decline since 1931. United States stock prices also fell significantly in the first quarter of 2009, but quickly recovered from those lows during a rally in April. The stock market recovery was widely interpreted as suggesting that market participants had come to believe that the possibility of a depression had been adverted.

24. In order to avoid inflation once a recovery begins, the United States Federal Reserve will have to act aggressively to reduce the money supply and the nearly $700 billion of excess reserves being held by the commercial banks as deposits at the Federal Reserve.

III. Advanced economies of Europe

25. The economic performance of the Eurozone is likely to be one of the world's worst during this global crisis, with growth of minus 4.2 per cent in 2009 and minus 0.5 per cent in 2010. The economic slowdowns being forecast for Iceland and Ireland would represent the largest for an advanced economy since the 1930s.

26. In the European Union, the unemployment rate was 7.9 per cent in February 2009, 7.8 per cent for men and 8 per cent for women. It varied considerably, from 15.5 per cent in Spain, 14.4 per cent in Latvia and 13.7 per cent in Lithuania, to a low of only 2.7 per cent in the Netherlands. Currently there are 19.2 million people unemployed in the European Union and estimated job losses for 2009 and 2010

stand at about 8.5 million. The unemployment rate in Iceland increased from 1 per cent prior to the crisis to 9 per cent in March 2009.

27. The regulatory failure that produced the current crisis was not restricted solely to the United States, as it was often the European affiliates of United States firms that had engaged in some of the riskiest behaviour and these were generally outside the jurisdiction of United States regulators. For example, this was the case for Lehman Brothers, where its office in the United Kingdom of Great Britain and Northern Ireland was responsible for many of its questionable trades, and for AIG (American International Group), which sold many of its credit default swaps through a London-based French banking subsidiary (Banque AIG). Thus the European financial sector was not simply a passive purchaser of these assets but played an active role in securitizing, distributing and insuring the assets that would later prove to be toxic. Overall, the crisis has revealed that the regulatory failure was not confined to one or two specific operations in one or two countries, but spanned a broad spectrum of financial market activities throughout the United States and Western Europe.

28. The severity of the crisis in the advanced economies of Europe was due to the following factors: (a) many European banks owned a surprisingly large share of the toxic assets; (b) the national regulatory and institutional structure of the financial sector in most European economies was poorly designed for dealing with financial market turmoil; (c) regional or pan-European institutions and regulatory systems were inadequately designed for the financial situation that developed; (d) European banks were more highly leveraged than United States banks; (e) in some cases European banks were overly reliant on international wholesale financing; (f) European banks had lent far more to emerging markets than United States banks and were thus much more exposed to the downturn in those economies, especially in European emerging markets, which were particularly vulnerable to a crisis owing to large current account deficits and extensive foreign-currency-denominated debts; (g) even in those economies that escaped the initial financial shocks, the regional trade linkages were quite large; (h) the design of the European monetary system essentially eliminated lender of last resort backing for national commercial banks and sovereign debt; (i) European policymakers were more reluctant to implement counter-cyclical macroeconomic policy; (j) several European economies had their own housing bubbles combined with weaker mortgage lending standards; and (k) Government assistance to the sectors most negatively affected was constrained by nationalistic competitive concerns.

29. The European macroeconomic response to the crisis was weaker and implemented more slowly than in the United States. Although the European Central Bank increased liquidity in inter-bank markets at the first sign of trouble, one year into the crisis interest rates in the Eurozone were higher than when the crisis first began late in the summer of 2007. The European Central Bank was instead preoccupied with headline inflation that was slightly over its target owing to escalating world commodity prices. Interest rates were finally lowered to 1 per cent in May 2009, but they remain higher than in most other advanced economies. A number of other economies in the European Union but outside the Eurozone had to roughly follow the pattern established by the European Central Bank. The Bank of England was much more aggressive in lowering rates early in the crisis and ultimately lowered them to 0.5 per cent, the lowest in its 315 year history. Norway had also cut rates to 1.5 per cent, which was an all-time low, by May 2009.

30. The advanced Western Europe countries, led by Germany, were reluctant to implement significant discretionary fiscal stimulus packages because of their large automatic stabilizers (which are estimated to be about twice the size of those in the United States), their conservative economic philosophies regarding macroeconomic policy, more pressing long-run demographic concerns, and built-in institutional constraints on fiscal deficits. The consolidated Eurozone fiscal deficit is forecast to be 6 per cent in 2009; this is twice the limit enshrined in the Stability and Growth Pact. The deficit in the United Kingdom is forecast to be as high as 14 per cent of GDP in 2009 and 11 per cent in 2010, although public debt is likely to reach only 61 per cent of GDP in 2009.

31. In February 2009, industrial production was 18.4 per cent lower year on year in the Eurozone and 17.5 per cent lower in the European Union, a record decline. Manufacturing activity was particularly hard hit in the Eurozone; new orders in January 2009 were 34 per cent lower than a year earlier. This represented the largest monthly year on year decline since Eurostat began compiling this data in 1996. The decline in European industrial production was in large part due to the worldwide decline in trade and was therefore especially large for those economies that exported a high percentage of capital and consumer durables.

32. Housing prices in Western Europe and the new member States of the European Union increased substantially over the past decade, often more than in the United States. Currently, European Union house prices are falling mostly in the range of 10 to 20 per cent year on year, and sales of existing homes are down between 25 per cent and 50 per cent. The situation is considerably worse in some economies, such as Spain, Ireland and the United Kingdom, than in others, such as Germany, which did not really experience a price boom. The number of unsold new homes in Spain is equal to about three years of construction at the current level (260,000), which is about one third of the level (749,000) in 2005-2007. Although the housing busts in these economies do have significant financial implications, Europe is unlikely to experience the level of foreclosures seen in the United States or the collapse of European mortgage-backed securities because lending standards were much more rigorous than the subprime loans made in the United States.

33. The future institutional shape of the European Union remains in some doubt as it is not clear whether the Lisbon reforms will be implemented or not. These reforms are generally aimed at easing the decision-making process by increasing the range of issues to be decided by qualified majority voting instead of by unanimous agreement, creating a European Union president and diplomatic service and expanding the powers of the European parliament. The Irish voted against the Lisbon reforms in June 2008 and it is not clear what impact the very severe recession currently in the country will have on a second referendum being anticipated for the autumn of 2009.

34. Iceland suffered a major financial crisis in 2008 when its banking system, which was highly leveraged, failed. Iceland required a rescue package from the International Monetary Fund (IMF). The Government of Iceland fell from power in early 2009, largely as a result of the economic crisis. The new Government is likely to apply to begin the European Union accession progress in the summer of 2009 and hold a referendum on the issue over the next year and a half; a major advantage for Iceland would be the ability to join the Eurozone.

35. In the coming year there is likely to be significant reform in a wide array of activities in the European financial sector, as in the United States. One issue of particular importance to Europe will be how to address a number of regulatory issues concerning cross-border banking entities. Western European banks owned a large share of the banking sector in the new member States of the European Union and in South-East Europe, and questions have arisen as to what were the responsibilities of host and parent Governments in addressing the banking crisis.

36. The gap between Europe and the United States in terms of per capita income and productivity, which had been declining for most of the period following the Second World War, reversed in the 1990s owing to a productivity surge in the United States. This led the European Union to launch the Lisbon agenda, which had the goal of closing this gap. To date, the Lisbon initiative has been only partially successful. The gap in per capita income is no longer widening, but it is not closing either. With Europe experiencing a larger downturn because of the economic crisis and perhaps a slower recovery, and with the United States proposing increased federal funding for scientific research, there is little likelihood that any progress will be made in closing this gap over the next five years.

IV. European emerging economies

37. The European emerging markets were initially sheltered from the first wave of financial instability, as their banking activity was based on traditional lending models with no exposure to the toxic assets. However, the situation deteriorated dramatically in late 2008, as global capital markets came to a standstill as a result of increased risk aversion and the accompanying "flight to quality". Private capital flows to the world's emerging markets declined from $929 billion in 2007 to $466 billion in 2008 and are forecast to reach only $165 billion in 2009. The European emerging economies had been major recipients of these flows and their access to them was particularly curtailed as market participants increasingly became fixated on the vulnerability associated with their large current account deficits.

38. It is likely that a significant number of the European emerging markets will need some type of multilateral support before the crisis is over. By April 2009, seven economies (Armenia, Belarus, Bosnia and Herzegovina, Georgia, Hungary, Latvia and Ukraine) already had IMF programmes in place and others were close to concluding an agreement (Romania and Serbia). The size of the packages ranged between 5 and 10 per cent of GDP. Several of the countries have experienced difficulties in meeting IMF agreed targets and their disbursements have been temporarily put on hold (Hungary, Latvia and Ukraine). This is in addition to the IMF assistance to Iceland, an advanced European economy. Several other countries established new credit lines from IMF as a precautionary move; Poland obtained $20.5 billion to boost the reserves of its national bank so as to provide more support for its currency.

39. Industrial production, and especially manufacturing, have been the most severely affected in the emerging economies in Europe; trade in these sectors has also fallen the most. Car production has been especially hard hit and accounts for a sizeable percentage of the industrial production of the emerging economies. Per capita automobile production is quite large in several of the new member States of the European Union, including Slovakia, Slovenia and the Czech Republic. The

largest declines in industrial production in the new member States occurred in Estonia (minus 30.2 per cent), Hungary (minus 29 per cent), Latvia (minus 24.2 per cent), Slovenia (minus 21.2 per cent), and the Czech Republic (minus 20.3 per cent). In the largest European emerging economies outside the European Union, industrial production (January 2009, year on year) was significantly lower as well, falling by 34 per cent in Ukraine, 21 per cent in Turkey and 16 per cent in the Russian Federation. By January 2009, automobile production had declined by 60 per cent year on year in Turkey.

40. The development model of many of the emerging economies of Europe, especially the new member States of the European Union, was one that has relied extensively on external capital to finance their development. The region was somewhat unique in this respect, as many other emerging economies have become exporters of capital. As a result of importing capital, businesses have been able to invest more and households consume more than would have been possible otherwise. However, the crisis caused global capital markets to seize up, which has limited the access of these economies to external finance and plunged many of them into a serious economic downturn. The crisis has thus exposed the weakness of relying on external capital for developmental finance; without significant reform of the international monetary system, countries are likely to avoid this development model in the future and this will have a detrimental effect on global development.

41. Economic inequality remains relatively low in the countries with economies in transition compared with other emerging markets at a similar level of development; inequality, however, is higher than it was historically under central planning and somewhat higher than in the Western European economies. Direct taxes and transfers have had a significant redistributive impact in these economies. Cross sectional comparisons reveal that democratization and low inflation appears to contribute to reduced inequality while large scale infrastructure privatization appears to increase it.

42. After the financial crisis that began in August 2007, both the inflows and outflows of portfolio equities and bonds were significantly reduced in the European emerging economies. During 2008 these dropped to about one half of their levels prior to the beginning of the crisis. An important financial flow for a number of the European emerging economies has been remittances; for some, these are the largest external financial inflow and are larger than either capital inflows or ODA. Remittances are expected to decline significantly in the next two years and this will have not only macroeconomic consequences but will directly affect poverty, human capital accumulation and health as these flows generally go to some of the poorest households. In the Republic of Moldova, remittances fell from 35 per cent of GDP in 2006 to 25 per cent in 2008 and are likely to fall further in 2009 and 2010.

43. The rapid economic growth experienced in the European emerging markets between 2002 and 2007 allowed some progress in terms of achieving the Millennium Development Goals. Within the poorer economies, the problems of poverty and social exclusion have a strong regional and ethnic dimension. Trends for several of the Millennium Development Goals especially relevant for the region, such as those connected with the AIDS and tuberculosis epidemics, seem unrelated to income trends; for example, HIV infection has more than doubled in the CIS since 2001 despite the rapid growth of the region. Therefore with growth slowing down and some Millennium Development Goal indicators invariant to growth,

significant further progress will require more explicit policy changes in a number of areas if the Goals are to be achieved by 2015.

44. The current crisis has already slowed and will further retard or even reverse the recent progress in achieving the Millennium Development Goals in the Economic Commission for Europe region. Extreme poverty had almost been eliminated in the region by the end of 2007, but with higher food prices, falling employment opportunities, reduced remittances and strained safety nets, it is estimated (by the United Nations Development Programme) that already another 10 million people in the region have been pushed back into extreme poverty. There is likely also to be a reversal of recent progress in addressing gender equality. The deteriorating economic situation is likely to further worsen the basic underlying conditions (poverty, prostitution, drug use) that have contributed to the spread of HIV/AIDS and tuberculosis and the worsening fiscal positions of the relevant Governments will mean that public health resources that are critical for controlling these diseases will be reduced.

45. Economic progress in a number of European emerging markets has been hampered by unresolved political issues and "frozen" conflicts, which has produced economic uncertainty and limited the gains from intergovernmental cooperation. This has been especially the case in the Caucasus and in the States created out of the former Yugoslavia.

A. European Union new member States

46. The European Union new member States have characteristics of both advanced and emerging economies and thus represent the intersection of the two groups. As a group, the new member States have a purchasing power parity per capita income of about 56 per cent of the European Union standard and have been converging by slightly over one percentage point per year, a rate that is slightly above that achieved by the Southern European Union members over the past two decades. Several of the new member States now have per capita incomes above those of some of the poorer Western European economies, which are generally classified as advanced economies. During this economic crisis, however, market participants have generally treated the new member States as if they were emerging economies owing to the fact that they had a number of vulnerabilities, such as large current account deficits and sizable foreign currency denominated loans, which are often associated with emerging markets. The four new member States that have already adopted the euro were protected slightly. The possibility of a typical emerging market financial and currency crisis remains not insignificant in a number of the new member States.

47. The new member States were affected by the crisis through a number of channels, but the most important were the financial linkages between the parent banks in the advanced European economies and their subsidiaries in these economies and their large declines in exports from the economic slowdown in Western Europe. In most of the new member States, a large percentage of total bank assets, often over half, were of subsidiaries of Western European banks.

48. The policy response of the new member States to the economic crisis has been hampered significantly by the institutional constraints in the Stability and Growth Pact and the Treaty on European Union (Maastricht Treaty) criteria. For example,

counter-cyclical fiscal policy has been limited by the need to limit the deficit to less than 3 per cent of GDP and a number of countries were reluctant to alter their exchange rate pegs.

49. In response to the crisis, exchange rates, prices and wages in the new member States will have to adjust significantly. Some of the economies have fixed exchange rates which will make these adjustments particularly difficult, but generally the region has flexible product and labour markets (as a result of weak labour unions). Multilateral support from IMF, the World Bank, and the European Bank for Reconstruction and Development will be important in providing some needed external financial resources until private markets recover.

50. The new member States face a number of challenges in being able to continue to converge towards the conditions in the States that were members of the European Union at the time they joined, including increasing the labour force participation rate for younger and older workers, creating more dynamic innovative economies and completing the structural and institution process associated with their transition to market economies. The European Union structural funds continue to provide an important source of finance for bringing about these changes.

51. The export share of the 15 European Union States to the new member States has increased from 1 per cent in 1988 to 7 per cent today. The new member States rely heavily on other European Union members as a destination for their exports. However, over the past several years there has been a steady reorientation of the share of the exports of the central European new member States away from the older advanced economies of the European Union towards other new member States, the Russian Federation and the European CIS countries.

52. The employment to population ratio remains low in the new member States relative to the European Union average especially for younger and older workers. There are increasing shortages of highly skilled workers (tertiary and above), which has been compounded by their relatively high migration rates to Western Europe.

B. Non-European Union South-East Europe

53. The situation and vulnerabilities (current account deficits, foreign-currency denominated debt, etc.) in South-East Europe was similar in many ways to that of the new member States, but worse since they did not have the financial support of the European Union or the European Central Bank. They do, however, continue to benefit from a number of longer-term European Union assistance programmes. Growth in the subregion is forecast to be minus 4.6 per cent in 2009, led by the decline in Turkey of minus 5.1 per cent.

54. The level of unemployment varies considerably in South-East Europe, from being moderate in Bulgaria and Croatia to extremely high in Serbia and Bosnia and Herzegovina. Throughout the region, labour force participation remains low and the informal sector is large. The economies in South-East Europe have also experienced significant decreases in growth as exports, capital inflows and remittances declined dramatically.

55. Croatia and Turkey are in the midst of the multi-year European Union membership process; Croatia's membership is being held up by a maritime border dispute with Slovenia, and a number of more fundamental problems face Turkey.

The economic size of Turkey and its Muslim culture are important factors in the slowing progress for Turkey. In the spring of 2009, the European Union accepted Montenegro's application to begin the formal European Union accession process and Albania formally submitted its application. The remaining countries or territories of South-East Europe have a number of domestic reforms to implement before they can consider European Union membership. The European Union has agreed that membership for any country other than Croatia cannot be finalized until the Lisbon treaty is approved.

56. The economic crisis has potentially long-run implications for the economies of South-East Europe. Before the crisis, it was generally thought that these economies should attempt to roughly duplicate the successful economic model of the new member States. However, their ability to develop by relying on external finance (as the new member States had) will likely be constrained considerably in the future. Thus their ability to grow and converge to Western European levels is likely to be reduced considerably.

C. Commonwealth of Independent States

57. The decline in economic growth in the CIS, including the Russian Federation, during the current crisis has been extraordinary, and represents probably the greatest "reversal of fortune" of any of the world's major regions. Real GDP in the CIS is expected to fall from 8.6 per cent in 2007 to minus 5.2 per cent in 2009, a turnaround of almost 14 percentage points, which is over twice the turnaround in the United States or the Eurozone over the same period. The largest reversal, of approximately 16 percentage points, is likely in Ukraine, where growth is forecast to decline from 8 per cent in 2007 to minus 8 per cent in 2009.

58. In the Russian Federation, real GDP is likely to decline from 8.1 per cent in 2007 to minus 6 per cent in 2009. This is quite remarkable, since the Russian Federation owned few of the toxic assets at the centre of the crisis, was running a large current account surplus and had very sizeable international reserves, little Government debt and a large fiscal surplus. The Russian unemployment rate rose to 8.5 per cent in February 2009, the highest rate since March 2004; unemployment is expected to increase to 12 per cent by the end of 2009. Also in February, Russian retail trade declined 2.4 per cent year on year, the first monthly decline since 1999. The large economic decline was primarily caused by a very large decline in export revenue and loss of access by its private sector to world capital markets. Private capital inflows came to a sudden stop in mid-2008, followed by a sharp reversal in the second half of the year, with net outflows reaching a record level of $130 billion over the whole year. Net outflows have continued in 2009, amounting to $33 billion in the first quarter. Because of excessive volatility, stock exchanges were closed on several occasions.

59. The decline in energy prices and the slowing economy have caused the Government budget of the Russian Federation to fall from a surplus of 4.1 per cent of GDP in 2008 to an estimated deficit of 8.5 per cent in 2009. This projected large swing in the fiscal position suggests that the Russian Federation has implemented one of the largest fiscal stimulus packages of the world's major economies. Spending is forecast to increase by 30 per cent year on year, while revenues will decline by 30 per cent year on year. The deficit will be mostly financed by the oil

reserve fund; additional domestic borrowing should amount to only around 1 per cent of GDP. The weight of supply-side initiatives is a distinctive feature of the Russian package to counter the crisis in comparison with other Group of 20 countries.

60. Although the Government of the Russian Federation was not a significant borrower on international capital markets, its private sector was. Thus, while the public sector has a strong external position, corporations and banks are facing significant external debt payments with very limited access to new borrowing. The banking system in a number of the CIS countries is now under considerable stress and bailouts or other forms of Government assistance or subsidies are likely to be required.

61. Governments throughout the world have attempted during the crisis to support their domestic industries through various tax, subsidy or tariff policies; often times, however, these were limited by agreements under the World Trade Organization. The Russian Federation and a number of the CIS countries that are not members of the World Trade Organization were less constrained in this respect, but they generally did not have the financial resources to provide much aid to industrial sectors. The Government of the Russian Federation provided about $50 billion to support various companies that were having difficulties and increased tariffs on imported used cars in January 2009 by as much as 200 per cent, depending on the age and engine size, and promised to subsidize car loans on some domestically produced models as a way to help protect its automobile manufacturers. However, by not being members of the World Trade Organization, the CIS countries were not protected from the protectionist policies of other countries.

62. There has been only limited regional cooperation and coordination in addressing the crisis among the CIS countries. The Russian Federation, despite its own serious economic situation, nevertheless has increased its financial support for neighbouring economies. In early 2009, it proposed a fund to combat the crisis within the framework of the Eurasian Economic Community of about $10 billion (of which the Russian Federation provided $7.5 billion) to aid primarily the other CIS economies. This fund is supposed to work with the Eurasian Development Bank in identifying joint projects that can help these economies respond to the crisis. The Russian Federation also provided some bilateral assistance, including a $2 billion loan to Belarus and a $500 million stabilization loan to Armenia. The crisis may also have implications for the creation of a currency union between the Russian Federation and Belarus and for the adoption of the rouble in a larger grouping such as the Eurasian Economic Community. Unfortunately, the Russian rouble and all the other currencies of the region have experienced significant declines, and the crisis provides no clear evidence that a larger currency union would necessarily provide any additional stability.

United Nations E/2009/17

Economic and Social Council

Distr.: General
5 May 2009

Original: English

Substantive session of 2009
Geneva, 6-31 July 2009
Item 10 of the provisional agenda*
Regional cooperation

Overview of the economic and social conditions in Africa 2009

Summary

Economic performance in Africa declined in 2008 and is projected to slow steeply in 2009. Africa's economic downturn is spurred by the financial turmoil that originated in the United States of America and affected most countries of the world. For the continent as a whole, despite this decline, fiscal and current account balances have improved and domestic savings and investment rates increased owing mainly to high commodity prices in the first half of 2008. However, Africa's average inflation rate rose significantly, threatening macroeconomic stability and food security in many countries. Also, economic performance in Africa, driven mainly by revenues from oil and mineral exports in resource-rich countries, conceals considerable variation across countries and remains insufficient for Africa to meet the Millennium Development Goals.

The continent needs short-term measures to mitigate the economic and social impact of the global downturn as well as long-term measures to accelerate and sustain broad-based growth and reduce vulnerability to external shocks. While food prices are generally declining, they remain above historical levels in some countries and many African countries still face the challenge of mounting food shortages owing to production constraints and inadequate emergency planning and assistance. In addition to falling commodity prices, slowing official and private capital inflows threaten the recent achievements made by many African countries in terms of sound macroeconomic and public expenditure management and progress towards meeting the Millennium Development Goals.

* E/2009/100.

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I. Developments in the global economy

1. In 2008, the burst of the housing bubble in the United States of America quickly spread to the rest of the world through the global financial network. The credit crunch that ensued made banks less willing to lend to each other and to consumers, drying up liquidity in the process, while risk perceptions started to rise sharply. The destruction of trillions of dollars in wealth has dragged down household spending on durable goods as well as corporate investments (United Nations, 2009).

2. World growth declined from 3.7 per cent in 2007 to 2.5 per cent in 2008 and a global recession is expected for 2009, with substantive negative growth rates in industrialized countries. The United States economy has been in recession since the end of 2007. In the euro area, Japan and the United Kingdom, gross domestic product (GDP) is expected to decline by more than 4 per cent in 2009. The fact that all major industrialized countries are expected to slide into recession at the same time is unprecedented (International Monetary Fund 2009a).

3. Indeed, all developing regions have been affected by the crises, with growth already slowing down in 2008. For 2009, a further slowdown is expected, driven by a decline in both foreign and domestic demand. For most developing regions, especially Asia, a significant growth of GDP is expected for 2009, but growth projections are constantly revised downward since the beginning of 2009, and some countries such as Mexico and the Russian Federation are expected to experience a fall in GDP (IMF, 2009a). It is worth noting that economic developments in the first quarter of 2009 and the uncertainty about the size and effectiveness of the various rescue packages make projections highly uncertain. There is a considerable downside risk, with a more severe global economic recession and greater decline in GDP growth in most regions.

4. The financial crisis and world recession will have significant effects on current account and fiscal balances. Japan and developing Asia, including China, have experienced a decline in current account surpluses in 2008, while Latin America has moved from a small surplus to a small deficit. Middle Eastern countries have also seen a decline in current account surpluses as a result of falling oil prices. Africa is one of the few regions where the current account surplus increased significantly in 2008, albeit from a low level. The fiscal balance deteriorated in industrialized countries as a whole and in all the major economies and regions. This was driven mainly by lower revenues owing to the slowdown in growth, and higher expenditure stemming from efforts to mitigate the economic and social effects of the financial crisis (United Nations, 2009).

5. Commodity prices stabilized after a rapid decline in the second half of 2008. Prices of both food and minerals had reached their long-term peaks by mid-2008. The commodity price boom ended in mid-2008 as supply began to respond to the extremely high prices and demand fell owing to the slowdown in the world economy. By the end of 2008, most commodity prices had lost all their gains made during the boom, although some prices started to pick up a bit at the beginning of 2009. Oil prices have broadly stabilized and are expected to rise slowly in 2010.

6. Average world inflation increased from 3.5 per cent in 2007 to around 6 per cent in mid-2008, the highest rise since the late 1990s. However, as world demand declined in the wake of the financial crisis, most commodity prices also declined.

easing global inflationary pressures. Accordingly, and in view of rising unemployment and contained wage increases, inflation rates for 2009 are expected to fall back to the 2007 levels in most regions. This has prompted most industrialized countries to ease monetary policies, with zero or close to zero interest rates in the United States, Japan and the United Kingdom (European Central Bank 2009).

7. Global trade, foreign direct investment (FDI) and remittances continued to grow in 2008 but will also be adversely affected by the recession in 2009. Growth in world trade slowed in 2008 owing to slowing demand in countries of the Organization for Economic Cooperation and Development and mounting difficulties in obtaining trade credit. In the fourth quarter of 2008, world trade declined by 6 per cent over the previous quarter and a further contraction is expected for 2009. Fiscal expansion induced by stimulus packages, mainly implemented by rich countries, is likely to have a relatively low impact on foreign trade; the packages are designed to stimulate domestic demand, including public expenditure on infrastructure and basic services. Another factor contributing to the expected fall in trade is the observed tendency towards protectionism in some countries in the form of tariff increases, non-tariff barriers, and subsidies (ECB 2009; World Bank, 2009a).

II. Overall economic performance in Africa

A. Africa's economic growth rate down in 2008

8. Economic growth in Africa in 2008 was 5.1 per cent, down from 6 per cent in 2007 (figure I). The main driver of growth in Africa was the rise in commodity prices, especially oil. Oil-exporting African countries contributed 61.4 per cent to the overall growth of the continent and grew at 5.9 per cent, compared to 4.4 per cent for the non-oil countries. In addition to the robust effect of high commodity prices, it is important to underscore the other key factors, especially good macroeconomic policies and institutional reforms, underpinning the high growth performance in Africa in recent years. In many African countries, the adoption of sound and sustained macroeconomic policy has helped to boost the confidence of both domestic and foreign investors and stimulate growth.

9. Moreover, by strengthening economic and corporate governance, including measures to combat corruption, undertaking reforms to improve the business environment and consolidating peace in many conflict areas, the continent has attracted significant private capital inflows and stimulated private sector development. Doing business has become easier in Africa as many countries have implemented a large number of reforms in recent years. For example, in 2007/2008, 28 economies implemented 58 reforms, as compared to 24 economies and 49 reforms in the previous year. The pace of reforms is gathering momentum with a 70-per-cent rise in the number of countries enacting reforms between 2005 and 2008. Consequently, in 2008 Africa's regional ranking on the pace of reform improved to third place after Europe and Central Asia, up from fifth place in 2007. Three African countries (Senegal, Burkina Faso and Botswana) are among the top 10 in the rankings of business reformers in 2007/2008 (World Bank, 2009b).

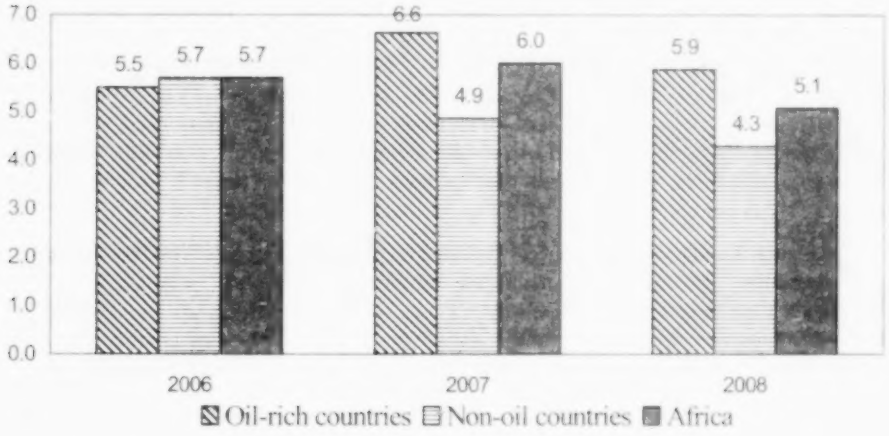
10. Finally, increased donor assistance and debt relief have helped many countries to free up resources for investment in infrastructure, human capital development and

poverty reduction. As a result, many low-income African countries have begun to diversify their production base, improve trade capacity and increase productivity as well as exports. In terms of volume, Africa's exports of goods and services increased by 13 per cent between 2006 and 2008, while imports increased by 6.6 per cent over the same period. However, the continent's terms of trade increased by only 1.4 per cent annually during this period.

11. The role played by high commodity prices, political stability, and sound macroeconomic policies in Africa's growth performance in 2008 manifested itself in how individual countries performed. Although 8 of the top 10 performers are mineral-rich or oil-exporting countries and 1 country (Liberia) is a post-conflict case, improved macroeconomic management characterizes many of the high-performing economies.[1] On the other hand, all the least performing countries (Chad, the Comoros, Eritrea, Guinea, Somalia and Zimbabwe) have either experienced severe political instability or external shocks or both. Diversification of production and exports remains a priority for both top and bottom performers.

12. In addition to strategies to diversify production and exports, sustaining sound macroeconomic management, institutional reforms, improved mobilization of domestic resources and increasing non-debt generating external capital inflows are critical for Africa to maintain growth in a turbulent global economic environment. In this context, the international community must also play its part in helping oil-importing low-income African countries that need external support to mitigate the economic and social effects of the global recession, food shortages and low export earnings.

Figure I
Growth in African oil versus non-oil economies, 2006-2008 (percentage)



Source: Department of Economic and Social Affairs, November 2008.

[1] The top performing African countries in 2008 were: Angola (12.9 per cent), Equatorial Guinea (9 per cent), Liberia and Ethiopia (8 per cent each), the Congo (7.8 per cent), the Democratic Republic of the Congo (7.2 per cent), the United Republic of Tanzania (6.8 per cent), Malawi (6.6 per cent) and Egypt and Botswana (6.5 per cent each).

B. Growth performance continues to vary considerably across subregions and countries

13. In 2008, GDP growth decelerated in three of the five subregions of the continent (table 1). West and Central Africa grew at 5.4 and 4.9 per cent in 2008, compared with 5.2 and 3.9 per cent in 2007, respectively. In 2008, GDP growth rates decreased in North Africa (to 5.4 per cent), East Africa (5.7 per cent) and Southern Africa (4.2 per cent). High commodity demand and high prices are still among the key factors supporting growth in all African subregions.

Table 1
Subregional growth performance, 2006-2008 (percentage)

	2006	*2007*	*2008*
East Africa	6.2	6.3	5.7
Southern Africa	6.1	6.2	4.2
North Africa	5.8	5.9	5.4
West Africa	4.6	5.2	5.4
Central Africa	1.8	3.9	4.9
Africa	5.7	6.0	5.1

Source: Department of Economic and Social Affairs, November 2008a.

14. Despite the slowdown, East Africa maintained the highest growth on the continent over 2006-2008. Again, Ethiopia led the subregion with an 8.0 per cent rate of growth of real GDP in 2008, followed by the Democratic Republic of the Congo (7.2 per cent), the United Republic of Tanzania (6.8 per cent), Seychelles (6.2 per cent), Uganda (6.0 per cent), Rwanda (5.8 per cent), Madagascar (5.2 per cent), and Burundi and Djibouti (5.0 per cent each). Growth plummeted in Kenya from 6.1 per cent to 3.5 per cent, owing largely to post-election violence and a sharp fall in tourism. Growth remained weak in Eritrea (1.0 per cent) owing to poor rainfall, weak agricultural production and a poor business environment. Political instability disrupted tourism and FDI inflows as well as overall growth in the Comoros (0.5 per cent).

15. Growth factors in East Africa included expansion in agriculture, horticulture, and services, especially finance, telecommunications and construction. The subregion also benefited from healthy inflows of aid and strong growth in tourism and FDI. However, growth in some East African countries such as Uganda remains constrained by infrastructure bottlenecks, especially in energy and transportation.

16. High oil revenues and tourism receipts continued to boost growth in North Africa. Egypt grew at 6.5 per cent, followed by the Libyan Arab Jamahiriya (6.2 per cent), the Sudan (6.0 per cent), Morocco (5.1 per cent) and Tunisia (4.8 per cent). Economic growth recovered markedly in Mauritania (from 1.0 per cent in 2007 to 4.2 per cent in 2008), but declined in Algeria (from 4.6 per cent to 3.3 per cent). In addition to the strong rise in oil and mineral exports that boosted both public and private consumption in most countries, North Africa saw a rebound in agricultural output as well as a construction boom owing to the high demand for tourism and residential buildings. Growth slowed in Tunisia owing to food and oil costs and

weaker European Union demand for exports, and in the Sudan due to declining oil production.

17. In West Africa, GDP growth was strong in most countries, thanks to accelerated recovery in Liberia (8.0 per cent), increased oil production and prices and growth in non-oil sectors in Nigeria (6.1 per cent each), high FDI inflows and remittances in Cape Verde (5.8 per cent), and expansion in mining activity in Sierra Leone (5.8 per cent), Ghana (6.0 per cent) and Burkina Faso (4.3 per cent). Growth in construction and tourism together with high public spending underpinned a high rate of GDP growth in the Gambia (5.8 per cent). Growth also remained high in Benin (4.7 per cent) with a recovery in re-export activity and cotton production and strong growth in construction.

18. Strong activity in the mining and service sectors, among other factors, has supported growth in Senegal (4.6 per cent), and the Niger (4.0 per cent), whereas growth in Mali (3.9 per cent) benefited from fast expansion in the non-mining sector. Economic performance was relatively weak in other countries of the subregion. Guinea-Bissau grew at 3.3 per cent, thanks to a recovery in agricultural output and rising donor support, while Togo grew at 2.9 per cent owing to growth in cotton production and in manufacturing and services. Recovery in the oil sector and peace dividends underpinned a 2.8 per cent growth in Côte d'Ivoire in 2008, while political upheavals left Guinea with a 2.0 per cent growth rate.

19. Economic performance in Central Africa accelerated from 3.9 per cent in 2007 to 4.9 per cent in 2008, thanks largely to increased public investment in infrastructure in Equatorial Guinea (9.0 per cent), significant expansion in oil production and activity in the non-oil sector in the Congo (7.8 per cent), and Gabon (3.9 per cent). Growth also remained high in Sao Tome and Principe (5.3 per cent) despite delays in the disbursement of some donor funds and the impact of high inflation and energy costs.

20. Growth improved in the Central African Republic (to 4.4 per cent), with the resumption of donor support and the improved political situation, and in Cameroon (to 3.9 per cent), as a result of developments in infrastructure and exploitation of natural resources. Despite improvement, Chad (1.0 per cent) remains the least performing country in the subregion as a result of political conflict and the erratic flow and management of oil revenue.

21. Southern Africa's economic performance slowed from 6.2 per cent in 2007 to 4.2 per cent in 2008 as most of the larger economies posted lower growth rates. Despite deceleration, Angola maintained the highest growth rate in the subregion in 2008 (12.9 per cent), followed by Malawi (6.6 per cent), Botswana (6.5 per cent), Mozambique (6.2 per cent), Zambia (5.9 per cent), Mauritius (5.4 per cent), Lesotho (5.0 per cent), and Namibia (3.5 per cent). GDP growth slowed sharply in South Africa (from 5.1 per cent in 2007 to 3.1 per cent in 2008), and remained low in Swaziland (2.0 per cent), while Zimbabwe's economy continued to contract (-4.5 per cent).

III. Macroeconomic imbalances driven largely by commodity shocks

A. Increasing fiscal deficits in oil-importing countries

22. The sharp increase in oil and food prices in the first half of 2008 has had different impacts on fiscal balances in oil and non-oil African economies. In 2008, 86 per cent of oil-importing African countries recorded fiscal deficits, up from 76 per cent in 2007 (table 2). On the other hand, the combined fiscal surplus of oil-exporting African countries amounted to 7.7 per cent of GDP in 2008, up from 5 per cent in 2007. All the 10 countries with the largest fiscal surplus are either oil-rich (7 countries) or mineral-rich (3 countries), which indicates that the overall relatively favourable fiscal position of the continent is a mere indication of the fiscal position of oil-exporting countries. The data show that, with the exception of Ghana and Egypt, all the top 10 deficit countries were subjected to political conflict and/or external shocks.

23. Despite the deficit position of the majority of the countries, fiscal management has been sound in most countries as the deficit remained below 5 per cent of GDP in 79 per cent of the deficit countries. While many Governments raised revenues by widening the tax base and improving tax collection, public expenditure also increased at higher rates owing to high food and energy prices and the need to mitigate their impact, especially on the poor. To contain mounting fiscal deficits, some African Governments have reduced expenditures on public services and development projects. In the context of the global economic downturn, such measures will have significant negative social effects, highlighting the need for increased external support, including aid and debt relief as well as concessional lending facilities by the international financial institutions.

Table 2
Distribution of fiscal deficits in Africa in 2008 (number of countries)

	Oil countries	*Non-oil[a] countries*	*Mineral-rich countries*	*Non-mineral rich countries*	*Sub-Saharan countries*
Countries with surpluses	8	4	2	2	10
Less than 5 per cent	2	3	1	2	5
5 per cent to 10 per cent	0	1	1	0	1
More than 10 per cent	6	0	0	0	4
Countries with deficits	5	25	8	17	26
Less than 5 per cent	4	18	5	13	19
5 per cent to 10 per cent	1	5	2	3	5
More than 10 per cent	0	2	1	1	2
Total number of countries	**13**	**29**	**10**	**19**	**36**

Source: Economic Commission for Africa calculations based on data from the Economist Intelligence Unit, November 2008.

Note: Owing to data limitations, only 42 countries are covered. The 11 excluded countries are: the Central African Republic, Comoros, the Democratic Republic of the Congo, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, the Niger, Sierra Leone and Somalia.

B. Africa experienced high inflation rates in 2008

24. Inflation in Africa, excluding in Zimbabwe, was 10.7 per cent in 2008, up from 6.4 per cent in 2007. Over 90 per cent of the 52 African countries with available data recorded a 5 per cent or more inflation rate in 2008, up from 60 per cent of them in 2007 (table 3). Only three countries (the Central African Republic, Côte d'Ivoire, and the Comoros) had inflation rates of less than 5 per cent in 2008. Africa's recent inflation has been mostly imported in the form of high energy and food prices associated with high global demand in the first half of 2008.

25. Other factors contributing to the inflationary pressure on the continent in 2008 included sustained government spending and robust domestic demand, especially in oil-exporting countries. This was the case in oil economies such as Angola, Egypt and the Sudan, where inflation was 12.6, 17.1 and 15.0 per cent, respectively. Zimbabwe aside, Ethiopia recorded the highest inflation rate (41 per cent) in Africa in 2008, owing mainly to high energy and food costs coupled with drought, followed by Guinea (30 per cent), Sao Tome and Principe (28 per cent) and Kenya (25 per cent). Zimbabwe still has the highest inflation on the continent (11 million per cent).

Table 3
Distribution of inflation rates in Africa, 2008 (number of countries)

Range	*Africa*	*Oil countries*	*Non-oil countries*	*Mineral-rich countries*	*Non-oil non-mineral-rich countries*	*Sub-Saharan Africa*
Less than 5 per cent	3	1	2	1	2	3
Between 5 and 10 per cent (10 per cent excluded)	23	7	16	5	18	19
Between 10 and 20 per cent (20 per cent excluded)	19	0	19	8	11	16
20 per cent and higher	6	0	6	2	4	6
Total number of countries	**51**	**8**	**43**	**16**	**35**	**44**

Source: Department of Economic and Social Affairs, November 2008a.
Note: Excluding Seychelles and Swaziland owing to lack of data.

26. Increased inflation rates in Africa have complicated macroeconomic management and contributed to a reversal in the achievements made over the last two decades in terms of poverty reduction. Tightening fiscal and monetary policies may harm the poor while having no significant impact on inflation. In most African countries, monetary policy is focused on controlling the money supply to reduce core (non-food) inflation. Owing to weak financial markets, these countries lack effective indirect monetary tools. They are also characterized by relatively poor coordination between fiscal and monetary policies.

27. In countries where the financial markets are more sophisticated, Governments have relied on interest rates and Treasury bill rates as the main monetary policy instruments. For example, South Africa increased the repurchase rate by 50 basis points to 12 per cent in June 2008, raising the prime lending rate to 15.5 per cent. In Egypt, the overnight deposit and lending rates were also raised by 50 basis points to

11 and 13 per cent, respectively, in August 2008. High interest rates can have strong adverse effects on growth and, in turn, on government revenue.

IV. External balances worsened in most African countries in 2008

A. Developments in the balance of payments

28. Despite their downward trend since the second half of 2008, high energy and food prices have resulted in rising current account deficits in 31 oil-importing African countries with available data. On average, current account deficits in these countries increased from -1.5 per cent of GDP in 2007 to -1.8 per cent in 2008. Current account deficits have also increased, though slightly, in landlocked African economies that have received relatively high ODA flows in recent years. On the other hand, for oil-exporting countries, current account surpluses increased from 10.7 per cent in 2007 to 15.9 per cent in 2008, thanks to high oil prices in the first half of the year. Thus, the overall current account position of the 42 African countries with available data, which shows a surplus of 2.6 per cent in 2008, is a reflection of the high revenues generated by oil-exporting countries (figure II).

29. The data clearly show mounting threats to current account sustainability in oil-importing African countries. This, together with internal imbalances and inflationary pressure, posed severe risks to macroeconomic stability and growth prospects in 2008 and beyond. In addition to rationalizing energy consumption, these countries should adopt strategies to diversify exports, promote tourism and attract remittances. In the short term, however, oil-importing African economies need more aid inflows to manage their external balances effectively. Meanwhile, oil exporters should devote a sizable proportion of their export earnings and accumulated reserves to boost public investment in infrastructure, human capital development and public service delivery instead of low-return excess foreign currency reserves.

Figure II
Current account balance in Africa by category, 2006-2008 (percentage of gross domestic product)

Source: Economic Commission for Africa calculations based on data from the Economic Intelligence Unit, November 2008.

Note: Data cover only 42 African countries. The 11 excluded countries are: the Central African Republic, the Comoros, the Democratic Republic of the Congo, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, the Niger, Sierra Leone and Somalia.

B. Exchange rate volatility up in 2008

30. Based on nominal exchange rates, 18 of the 35 African currencies with available data appreciated against the United States dollar in 2008, with 16 depreciating and 1 currency remaining unchanged. For the second consecutive year, the CFA, which is pegged to the euro, appreciated substantially against the United States dollar. In fact, many of the countries with strong primary commodity exports experienced currency appreciation in 2008. Overvalued exchange rates can discourage non-commodity exports from Africa, resulting in reduced international competitiveness or the "Dutch disease" problem. However, many African currencies began to depreciate against the United States dollar in late 2008.

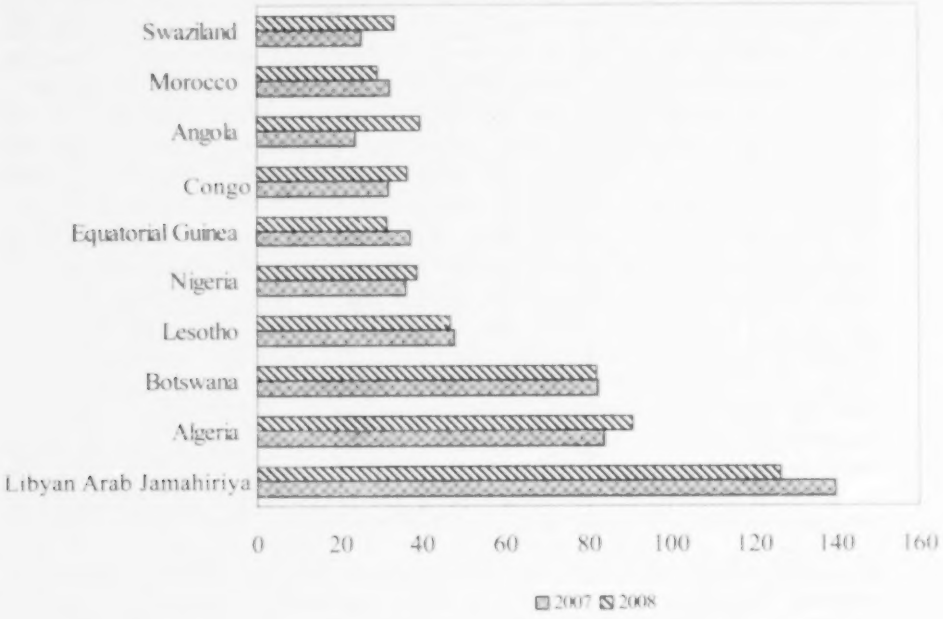
31. In terms of real effective exchange rate (REER), 28 of the 38 African countries with available data experienced currency appreciation in 2008. However, only six countries recorded REER appreciation of more than 10 per cent and three countries had REER depreciation of more than 10 per cent. Kenya, Madagascar, Mauritius, Mozambique and Zambia were the five African countries with the highest REER appreciation rates in 2008. Burundi, Ghana, Namibia, Seychelles and Zimbabwe were the five countries with the highest depreciation rates. This shows that both resource-rich and resource-poor countries can be confronted with large REER depreciation or appreciation, mainly as a result of fluctuations in the domestic price level.[2] High domestic prices as opposed to low prices cause REER to appreciate, even if the nominal exchange rate is constant.

32. Owing to high current account surpluses in oil-exporting African countries, the continent's foreign exchange reserves continued to rise, from 32.6 per cent of GDP in 2007 to 34.5 per cent in 2008. Thirty-four of the 42 African countries with available data maintained foreign exchange reserves of 10 per cent of GDP or more in 2008. The list of the top 10 African countries in terms of foreign exchange reserves as a ratio of GDP indicates that high reserves originate mainly from commodity revenues and private capital flows and that none of these countries is a high aid-recipient country (figure III).

33. Oil-exporting African economies need to coordinate fiscal and monetary policies closely to manage their foreign exchange reserves effectively and create a fiscal space for counter-cyclical interventions that can mitigate the impact of the global financial crisis and deepening economic downturn. This will also help them to manage risks emanating from disruptive exchange-rate volatility and inflationary pressure while at the same time spurring domestic investment for fast and sustained growth.

[2] The REER index is defined as [Pd/Pf*NER], where Pd is the domestic price level, Pf is foreign (United States) price level, NER is the official exchange rate expressed in terms of the domestic currency price of the United States dollar (period average). Thus, REER represents the quantity of foreign goods that can be purchased with one unit of domestic goods.

Figure III
Top 10 countries in terms of foreign exchange reserves (percentage of gross domestic product)



Source: Economic Intelligence Unit, November 2008.
Note: Excluding the following countries owing to lack of data: the Central African Republic, the Comoros, the Democratic Republic of the Congo, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, the Niger, Sierra Leone and Somalia.

C. Harnessing internal and external resources essential for Africa to boost growth

34. Africa's average rate of gross domestic savings has increased from 21.8 per cent of GDP in 2004 to 26.3 per cent in 2007. However, the domestic investment rate remained almost unchanged at around 22 per cent over the same period, far below the level required for achieving the Millennium Development Goals. This partly reflects weaknesses in the domestic and regional financial markets and the inability, especially of resource-rich countries, to use commodity revenues to boost domestic investment. Owing to low income, both domestic savings and investment rates are lower in oil-importing African countries compared with oil exporters.

35. Besides harnessing more domestic resources, Africa needs to mobilize increased non-debt generating external resources to boost domestic investment. As of July 2008, 19 African countries had received major reductions in official debt (United Nations, 2008a). However, while Africa's official debt declined, the debt owed to banks and other private creditors rose considerably such that overall debt remained high. ODA to Africa remains below the level of $72 billion per annum considered necessary for the continent to support the achievements of the

Millennium Development Goals (United Nations, 2008a). Meanwhile, more needs to be done for the continent to improve aid quality and effectiveness and to enhance development through trade.

36. Honouring commitments to aid has become even more important in the light of Africa's reduced access to private capital on account of the current global financial crisis. Development partners can signal their commitment to scale up aid to Africa by establishing rolling indicative timetables showing how they intend to reach their goals on aid quantity. This must be accompanied by measures to improve the delivery and management of aid. The Paris Declaration on Aid Effectiveness as well as the Accra Agenda for Action provide useful frameworks for improving aid effectiveness and these need to be fully implemented.

37. The rather ineffective use of trade for development is a reflection of domestic supply constraints, including poor infrastructure, a weak human capital base, and such external trade constraints as the stalemate of the Doha Round of multilateral trade negotiations, and the disputed agricultural subsidies by the European Union, the United States, Japan and Canada. Besides raising public and private investment in infrastructure — at some $52 billion annually — Africa needs substantial improvements in market access, as well as stronger regional market integration to enhance global competitiveness. Also, in the face of the global financial turmoil and increasing uncertainties, African countries should continue to consolidate their recent economic reforms to create a business environment attractive to private capital inflows.

V. Trends in social development in Africa

38. Africa has continued to make considerable progress in a number of social development areas with some concrete gains in such areas as primary school enrolment, measles vaccination, the use of insecticide-treated bednets, reductions in the rates of HIV prevalence in some countries and on some aspects of gender equality. However, very limited headway has been made on poverty, eradicating hunger, maternal mortality and on addressing disparities due to gender, income and disability. The present section examines the trends in social development in Africa based on the most recent data available, focusing on poverty and employment, education and health, with special attention to vulnerable and marginalized groups.

A. Poverty and unemployment

39. Data on income poverty in Africa are not complete, making close monitoring and tracking progress on poverty eradication at national and regional level a major challenge. According to recent estimates, the number of people living in extreme poverty (using the new US$ 1.25 per day international poverty line) in sub-Saharan Africa has almost doubled, from 200 million in 1981 to 380 million in 2005 (Chen and Ravallion, 2008). Meanwhile, the unemployment rate in sub-Saharan Africa declined only marginally, from 8.5 per cent in 1997 to 8 per cent in 2007, and is expected to rise sharply in 2009 as a result of the global economic recession. The unemployment rate is higher among disadvantaged groups, including women (9.1 per cent), youths (13.7 per cent) and people with disabilities (International Labour Organization, 2008). Also, unemployment is higher in North Africa (11.7 per

cent in 1997 and 10.9 per cent in 2007) than in sub-Saharan Africa. Women and youths recorded higher unemployment rates in North Africa, at 16.2 per cent and 24.5 per cent, respectively (ILO, 2008).

40. The share of people in vulnerable employment situation is high in sub-Saharan Africa, accounting for more than 70 per cent. The burden of vulnerable employment continues to fall heavily on women, who remain mainly in the agriculture and informal sectors. Indeed, slow progress on social development is most pronounced for the marginalized and vulnerable groups in African countries, including women, older persons, youth, persons with disabilities, orphans and vulnerable children, internally displaced persons and indigenous people. The overall exclusion of these groups from society is reflected not only in their lower incomes and poorer outcomes in the labour market but also in terms of lower educational attainment rates, poor health status and underrepresentation in political processes and at policymaking levels.

41. The main challenges in fostering the social inclusion of vulnerable groups include the lack of implementation of the commitments and policies; inadequate financial resources to support spending on social programmes; constraints on technical capacity; the lack of relevant data to support policies; and war and conflicts. The need for the social inclusion of the vulnerable and marginalized groups and the need to strengthen social protection systems have been magnified by the recent food and energy crises and the global economic recession.

B. Education: remarkable increases in primary school enrolment rates

42. The average net primary enrolment rate in sub-Saharan Africa increased from 56 per cent in 1999 to 71 per cent in 2006. In North Africa, the initial enrolment figures were above 85 per cent in 1991, except for Morocco, which started from 56 per cent in 1991 and reached 86 per cent in 2003 and no change has been registered since. The improvements in primary enrolment rates are driven largely by a combination of strong Government commitment that has expanded primary education facilities, eliminated school fees, and appropriate support from the donor community (United Nations, 2009a). Progress has been especially remarkable in the following countries: the United Republic of Tanzania, Ethiopia, the Niger, Benin, Guinea and Madagascar, where educational coverage rose by more than 50 per cent since 1999 (United Nations Educational, Scientific and Cultural Organization, 2009). If the current rates are sustained, many countries in Africa will be able to achieve the enrolment figures of 100 per cent by 2015.

43. Although the primary enrolment rate has been improving, the primary completion rate is an area of concern. Between 1999 and 2006, the completion rate improved from 49 per cent to 60 per cent in sub-Saharan Africa, and from 86 per cent to 92 per cent in North Africa. The completion rates for girls in sub-Saharan Africa are much lower than for boys. The major reasons for dropping out of school include the lack of resources to meet the costs, domestic care activities within households (particularly for girls), early marriages, child labour, teenage pregnancies, the poor quality of education and long distances to school. It is important to ensure that the most vulnerable and marginalized children are enrolled and remain in school through targeted programmes and interventions aimed at poor

households and at girls. The pupil-to-teacher ratio needs to be further improved from 45 in 2006.

44. The gross enrolment ratio in secondary education in sub-Saharan Africa increased from only 25 per cent in 1999 to 32 per cent in 2006. The gross enrolment ratio in tertiary education in sub-Saharan Africa has remained at around 5 per cent in 2006 compared to 17 per cent for developing countries and 25 per cent for the world. North Africa has made significant progress in increasing enrolment in secondary and tertiary education. The major challenges affecting secondary and tertiary education include the shortage of trained teachers, and the lack of resources to cover the cost of education.

45. The youth literacy rate improved from 68 per cent in 1995 to 86 per cent in 2007 in North Africa. In sub-Saharan Africa, the literacy rate improved from 53 per cent to 62 per cent for adults and from 64 per cent to 72 per cent for youths aged 15 to 24 over the same period (UNESCO, 2009). However, it is important to note that large disparities in literacy rates are evident in many countries in relation to gender, poverty, place of residence, ethnicity, language and disability (UNESCO, 2009).

46. In 2006, the gross enrolment ratio of girls to boys in primary education reached 0.89 in sub-Saharan Africa, and 0.93 in North Africa, thanks to efforts by Governments and donors (United Nations, 2008a). North Africa has achieved the strongest gains with young female literacy rates increasing by over 20 percentage points from the 1980s to 2007, followed by Southern Africa, East Africa, West Africa and Central Africa, which recorded the lowest gains (Economic Commission for Africa, 2007). The literacy rate for young women in sub-Saharan Africa increased from 58.6 per cent for the period 1985-1994 to 67.3 per cent in 2007. Yet, the gap between the female and male literacy rates is not decreasing fast enough, especially in sub-Saharan Africa, where the ratio of young female to male literacy rate has remained rather static over the last decade, at around 0.87 per cent.

47. Gender parity has deteriorated at the secondary level in sub-Saharan Africa, where the gross enrolment ratio of girls to boys in secondary education decreased from 0.82 in 2000 to 0.80 in 2006 (United Nations, 2008b). The gross enrolment ratio in secondary education for girls reached only 28 per cent. Far fewer African countries are making progress in achieving gender parity in tertiary education. The enrolment ratio of females to males in tertiary education only reached 0.68 in sub-Saharan Africa. In comparison, North Africa has achieved gender parity in enrolment in tertiary education (United Nations, 2008b).

C. Health: mixed progress in combating HIV/AIDS and other epidemics and reducing rates of infant, child and maternal mortality

48. Through extensive and targeted prevention programmes, the HIV prevalence rate has either stabilized or declined in most African countries (Joint United Nations Programme on HIV/AIDS (UNAIDS), 2008). The adult HIV prevalence rate in sub-Saharan Africa has declined from 5.8 per cent in 2001 to 5.0 per cent in 2007. The adult prevalence rate is lowest in North Africa (less than 1 per cent) and highest in Southern Africa, where in 2007 it exceeded 15 per cent in seven countries. HIV/AIDS remains the leading cause of adult morbidity and mortality on the

continent. However, in many countries of the region there are positive signs of behaviour change that suggest a stabilization of the epidemic, especially among young people (aged 15-24). The adoption of a safer behaviour has resulted in a decrease in the number of new infections in Rwanda and Zimbabwe. This shift in behaviour is especially encouraging since young people have delayed the onset of sexual activity in seven of the most affected countries (Burkina Faso, Cameroon, Ethiopia, Ghana, Malawi, Uganda and Zambia) (United Nations, 2008a).

49. Owing to declining prices of antiretroviral drugs, out of 4.6 million Africans living with the virus and requiring the drugs, nearly a third are undergoing treatment. The number of people who received antiretroviral treatment in Central, East, Southern and West Africa, as a whole, increased from 100,000 in 2003 to 2.1 million in 2007 (UNAIDS, 2008). The corresponding coverage of people who received treatment improved from 2 per cent in 2003 to 28 per cent in 2006. Four countries (Botswana, Namibia, Rwanda and Senegal) have already achieved the goal of treating at least 50 per cent of patients (UNAIDS, 2008). In 2007, over 470,000 HIV-positive pregnant women were reported to have received antiretroviral drugs for the prevention of mother-to-child transmission, an increase of over 50 per cent from 2006. While the overall HIV unmet treatment gap is still high, more attention should be given to women who constituted 57 per cent of infected people in sub-Saharan Africa in 2003 and 61 per cent in 2007 (UNAIDS, 2008).

50. Overall trends in tuberculosis (TB) incidence, prevalence and deaths have been on the increase in sub-Saharan Africa as opposed to North Africa. By the end of 2006, 10 countries (the Comoros, Morocco, the Libyan Arab Jamahiriya, Tunisia, Egypt, Ghana, Mali, Mauritius, Sao Tome and Principe and Seychelles) had already halted and started to reverse overall incidence and incidence of smear-positive TB, as specified in the core Millennium Development Goal targets (World Health Organization, 2008). In 2006, TB incidence, prevalence and death rates in sub-Saharan Africa were 291, 521 and 59 per 100,000 people (excluding HIV-infected), respectively. The respective rates for North Africa were 44 for each of TB incidence and prevalence and 4 for deaths.

51. Malaria is still the leading cause of child mortality in Africa and of anaemia in pregnant women. Although data on malaria incidence and death rates are not comprehensive, coverage of key malaria control interventions has increased in several countries owing to the availability of funding and increased national attention to malaria control. Two thirds of African countries have adopted policies that include the use of effective antimalarial drugs. Since 2007, some 25 countries are implementing an artemisinin-based combination therapy treatment policy, with 20 of them implementing a countrywide policy change from chloroquine (African Union Commission and WHO, 2008). The use of insecticide-treated bednets by children under age 5 in malaria-risk areas in sub-Saharan Africa is reported to have improved from 2.1 per cent in 2001 to 5 per cent in 2005 and to 8 per cent in 2007 (United Nations, 2008a).

52. Preventable diseases and malnutrition are still the leading causes of the high infant and under-5 mortality rates. However, the continent has witnessed a decline in both infant and under-5 mortality rates. Between 1990 and 2007, the respective infant and under-5 mortality rates declined from 111 and 187 per 1,000 live births to 89 and 148 for sub-Saharan Africa, and from 58 and 79 to 36 and 46 for North Africa. West and Central Africa recorded the highest mortality rates and lowest

average rate of decline (1.2 per cent) compared to Eastern and Southern Africa (1.7 per cent) and North Africa (3.2 per cent). There is also wide variation within countries with higher mortality rates recorded for rural and poor families.

53. Similarly, maternal mortality has been considerably reduced in North Africa, from 250 per 100,000 live births in 1990 to 160 in 2005. However, maternal mortality remains unacceptably high in the rest of the continent. In 2005, the maternal mortality rate was 760 (down from 790 in 1990) in Eastern and Southern Africa, and 1,100 (the same as in 1990) in West and Central Africa (WHO, United Nations Children's Fund (UNICEF), United Nations Population Fund (UNFPA) and World Bank, 2007). Also, the lifetime risk of maternal death is unacceptably high in sub-Saharan Africa, at 1 in 23 compared to only 1 in 140 in North Africa, 1 in 92 in the world and 1 in 8,000 in industrialized countries. Obviously, progress in reducing maternal mortality in sub-Saharan Africa has been negligible although there are significant disparities across countries, emanating from differences in income and other factors.

54. One of the key factors contributing to high maternal mortality in Africa is the high rate of adolescent pregnancies owing to early marriage and teenage pregnancies. The risk of maternal mortality for very young mothers (aged 15-19) is twice as high as that for mothers aged above 20. UNICEF (2008) estimates that 70,000 very young mothers (aged 15-19) die every year from pregnancy-related complications. About 80 per cent of maternal deaths are preventable if women have access to essential maternity and basic health-care services. Efforts to expand coverage of essential services and strengthening of the health systems should be combined with actions to educate and empower women.

VI. Growth prospects for 2009 darken as global recession deepens

55. Africa's growth prospects for 2009 have been constantly revised downwards. In early 2009, the real GDP growth rate in Africa was expected to fall to 2.0 per cent in 2009 from 5.1 per cent in 2008. Subregional growth rates in 2009 were projected to range from -1.2 per cent in Southern Africa to 1.9 per cent in Central Africa, 3.1 per cent in North Africa, 3.1 per cent in West Africa and 3.8 per cent in East Africa. However, the continent's growth prospects for 2009 are subject to strong uncertainties stemming mainly from the world financial crisis and the deepening global recession.

56. The chances for a growth rebound in Africa in 2009 are slim, and hinge on the ability of economic stimulus packages in developed countries to enhance not only domestic demand but also demand for commodity exports from Africa. Nevertheless, sustained economic reforms, easing inflation, domestic currency depreciation and efforts to revive domestic demand would contribute to a positive, albeit weaker growth performance in Africa in 2009. Average inflation in Africa is expected to ease in 2009, as oil and food prices decline.

57. Lower energy and food prices in 2009 should reduce the pressure on Government budgets. This will support Government efforts to consolidate effective macroeconomic management and institutional reforms, which should further stimulate private investment and growth on the continent. In line with global

financial trends. Governments are expected to maintain or lower interest rates to encourage bank lending to the private sector. They are also expected to allow exchange rates to adjust in order to stabilize the external sector and promote international competitiveness. In fact, most African currencies are expected to depreciate in 2009, as a result of the recession and slowing export earnings and capital inflows.

58. As external capital inflows are likely to decline in 2009 because of the difficult economic conditions in major donor countries, African countries should use all available ODA inflows to boost domestic demand. Improving political and economic governance and the security situation are additional factors that can help Africa to avoid a severe slowdown. However, while the political situation is improving in countries such as Kenya and the Comoros, the continent faces persistent conflicts in countries such as the Democratic Republic of the Congo and the Central African Republic.

59. The political and governance environment also remains tenuous in countries such as Chad, the Sudan and Zimbabwe. The recent food crisis and looming starvation are threats to political and social stability, especially in East and West Africa and in conflict countries. Rising poverty rates also compound the effect of epidemics such as HIV/AIDS and malaria, hampering economic and social progress on the continent. Finally, owing to the limited diversification of production structures and high dependence on rain-fed agriculture, Africa also remains vulnerable to weather shocks and climate change. Some countries in the Horn of Africa were still experiencing severe drought conditions and food shortages in early 2009.

VII. Conclusions and key policy issues

60. **Economic performance in Africa continues to depend heavily on global commodity demand and prices owing to limited transformation of production structures. However, the GDP growth rate remained relatively high at 5.1 per cent in 2008. The global economic downturn and recession will have substantial effects on Africa through reduced capital inflows and lower demand and prices for primary commodity exports. Thus, GDP growth in Africa is projected to fall sharply in 2009. Meanwhile, as in previous years, economic performance varied considerably across countries and subregions and remains insufficient for achieving the Millennium Development Goals.**

61. **In 2008, high oil prices translated into high GDP growth rates as well as favourable internal and external balances in oil-exporting African countries. However, the continent recorded high inflation rates in 2008 that have resulted in declining standards of living, especially in sub-Saharan Africa.**

62. **Although food prices are on the decline, they are likely to stay high in the medium term. At the same time, many African countries continue to suffer from food shortages and food insecurity owing to drought, conflicts and rigid supply conditions, among other factors. In addition to strengthening emergency measures, long-term responses are essential for Africa to meet the challenges of the food and financial crises, growth volatility and slow social development. In the short run, Governments need greater policy flexibility as well as external support to combat food shortages through, for example, lower tariffs on food**

imports, subsidies and cash transfers to poor households. In the long run, Governments should invest more in agriculture and infrastructure — the main constraints on growth — especially energy, communications, roads and public service delivery in the areas of education and health. This, together with effective macroeconomic management and institutional reforms, will stimulate private sector development and investment, thereby accelerating job creation and poverty reduction.

63. In this context, resource-rich African countries need to use commodity revenues and the accumulated reserves from the commodity boom to enhance the diversification of production structures and international competitiveness. This requires increased productivity-enhancing public investment, especially in infrastructure, technology and human capital development.

64. African Governments and development partners need to sustain and strengthen efforts to mobilize more resources from domestic and external non-debt generating sources to increase emergency aid and debt relief as well as concessional lending to finance short-term strategies in order to mitigate the adverse effects of the global crisis. In addition to efforts to sustain ODA flows, increased debt relief and lending by the international financial institutions remain essential for low-income countries. the international financial institutions, including IMF, the World Bank and the regional development banks, are urged to design special stabilization and development funds such as the "Vulnerability Fund" recently proposed by the President of the World Bank, the Emergency Liquidity Facility and the Trade Financing Initiative proposed by the African Development Bank.

65. Beyond emergency and stabilization objectives, special funds and lending facilities should aim at promoting productive capacity and economic growth in low-income countries to address long-term growth challenges. In this regard, the threats posed by the recent crisis and the deepening global recession also call for the speedy and successful conclusion to the Doha Round of multilateral trade negotiations and the need to avoid protectionist tendencies in the recovery plans being implemented by the rich countries.

66. Africa's development strategies should continue to focus on social development with special attention to vulnerable groups. Policy targets should include combating poverty and hunger, creating decent work opportunities, improving access to education and health-care services, promoting gender equality, ensuring the social inclusion of the vulnerable groups, designing effective redistribution policies and strengthening social protection systems. These issues are at the core of the Social Policy Framework for Africa and the Windhoek Declaration on Social Development, which were adopted at the conclusion of the first African Union Conference of African Ministers in charge of Social Development, held in Windhoek in October 2008.

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